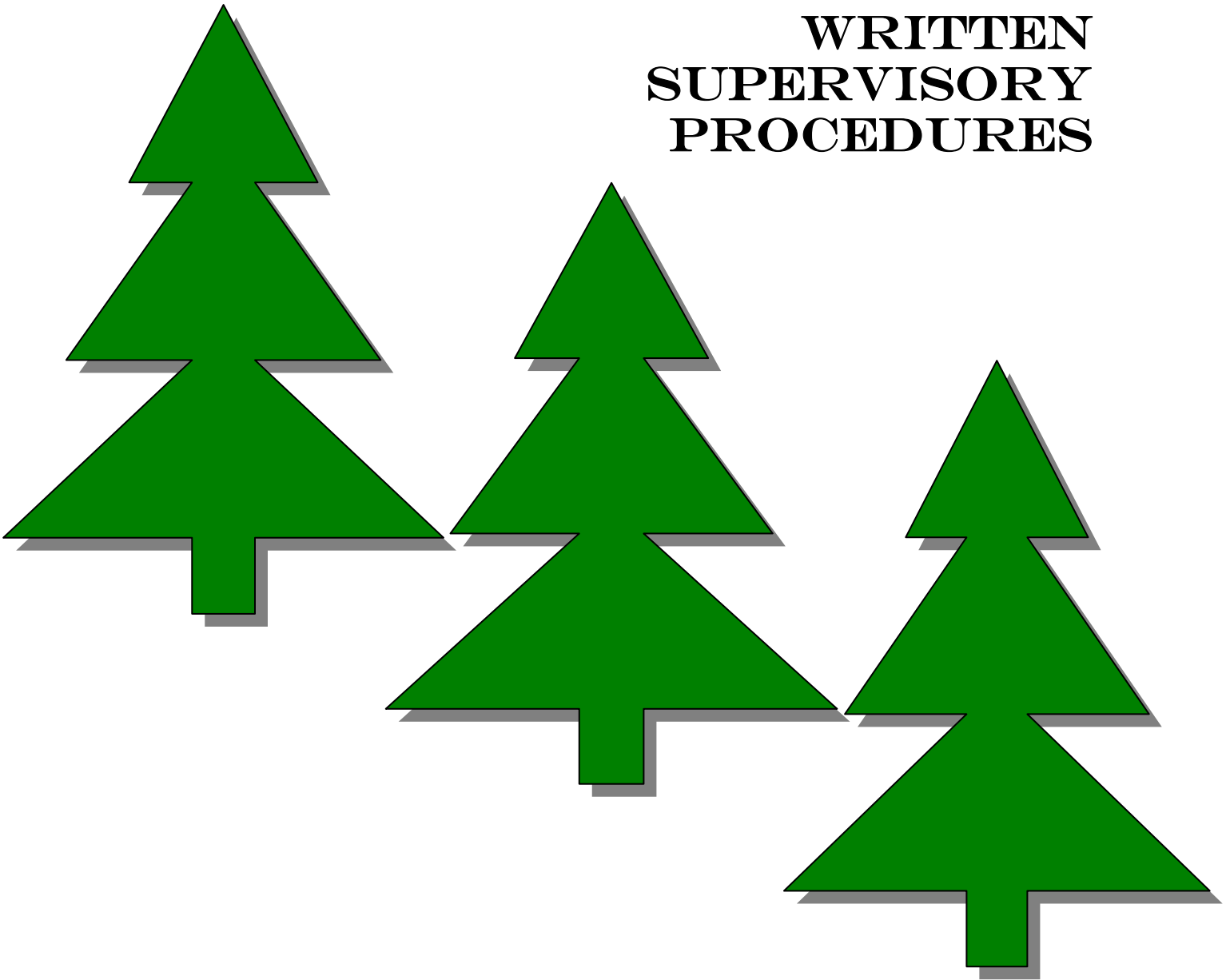


**WRITTEN
SUPERVISORY
PROCEDURES**



SEPTEMBER 2010

Colorado Financial Service Corporation

Member FINRA • SIPC • MSRB
304 Inverness Way South Suite 355
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INTRODUCTION:

This Manual has been developed to promulgate the written supervisory procedures and policies relating to broker/dealer practices and standards of conduct. It is designed to be a permanent record for the requirements and standards applied by Colorado Financial Service Corporation ("Colorado Financial Service" or "CFS").

Colorado Financial Service is a registered broker-dealer approved for conducting a general securities business that includes mutual funds and variable contracts on a subscription basis.

Colorado Financial Service is registered with the Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934, as amended. It is also a member of FINRA (aka NASD), and is subject to state Blue Sky Laws in the various states in which it conducts its business.

Colorado Financial Service endeavors at all times to operate in conformance with federal and state laws, and to comply with applicable FINRA rules. Colorado Financial Service's principals believe that they can best serve clients and customers and take best advantage of the business opportunities when all personnel are informed as to the legal, technical and mechanical aspects of its business and have a good working knowledge of practices suited to achieve customer objectives and legal compliance.

This Compliance Manual should accomplish two things:

First, it should provide Colorado Financial Service's personnel with an awareness of the requirements of the law, rules and regulations, and policies governing broker/dealer and associated persons' activities.

Second, it should set forth reasonably designed supervisory procedures to help insure that the firm's operations and activities conform to applicable requirements.

This Compliance Manual should be kept on hand for easy reference. You are asked and encouraged to raise questions, criticisms or comments about the manual. Suggestions for changes or additions are welcome and should be directed to Colorado Financial Service's President and CCO.

All Colorado Financial Service personnel have a responsibility for insuring that the firm's sales activities, operations and financial condition remain in continuous compliance with all relevant securities statutes, rules and by-laws. It is critical that everyone understand their responsibilities and be thoroughly advised of the procedural means by which they are expected to fulfill these responsibilities.

USE AND DISTRIBUTION

The Compliance Manual is a basic part of Colorado Financial Service's compliance program. Each registered person who has responsibilities in connection with Colorado Financial Service's securities business will be provided with a copy of this Manual. This Manual is intended to be revised or supplemented from time to time and will be distributed either via email, an FTP download, or at the annual compliance meeting. This manual may be delivered in hard copy or electronic version. It is the responsibility of the holder to see that his or her copy is maintained in an up-to-date fashion by inserting new material as instructed.

This Manual is the sole property of Colorado Financial Service and its contents are proprietary. By receiving a copy, you agree to *not* reproduce it or disclose its contents to anyone outside of this firm without the express and prior written consent of the firm's President.

OVERVIEW

The following overview of securities regulations will provide vital information for everyone involved in effecting securities transactions. It should be referred to regularly to clarify areas of concern. Any questions which arise regarding these regulations or the use and distribution of this manual should be directed to a principal of the firm.

STATE SECURITIES LAWS

The states have enacted legislation to regulate the sale of securities and those firms and individuals who engage in securities transactions. These laws are referred to as "Blue Sky Laws."

State regulation of the sale of securities in the United States dates from 1911 when the Kansas legislature passed the first securities law. North Carolina followed the same year and in 1912 Arizona and Louisiana enacted legislation in the field of securities regulation. The year 1919 found thirty-two states with this type of statute enacted. At present, the Federal government and all the states have passed legislation regulating the offering for sale, or sale of, corporate securities, bonds, investment contracts, and stocks.

The enactment of state securities legislation has been principally driven by a need to protect the investing public from dishonest and unscrupulous promoters and their speculative and often worthless stocks. These promoters, with their fraudulent practices and dishonest schemes, found a ready market with those who saw an opportunity to get rich quick. These statutes are generally and popularly referred to as "Blue Sky Laws," because of their purpose of preventing "speculative schemes which have no more basis than so many feet of blue sky." *Hall v. Geiger Jones Co.*, 242 U.S. 539 (1917).

In 1934, the Securities and Exchange Commission was established by Congress. The first federal law governing the sales of securities, the Securities Act of 1933, expressly granted each state the right to enact legislation for the regulation of the securities industry within it. As a result, securities broker/dealers who engage in securities transactions in a particular state must be registered or licensed under both Federal and State law. Registration or licensing under Federal law generally does not exempt the securities or the securities broker/dealer from registration or licensing by various state regulatory commissions.

The state securities laws generally deal with fraudulent or other prohibited practices, registration of broker/dealers and investment advisers, and registration of specific securities. Violations may be subject to both civil and criminal action.

SECURITIES ACT OF 1933

Essentially, the Act ensures full and fair disclosure of the nature of securities sold in interstate commerce and prevents fraud in their sale. Disclosure is achieved through requirements for the filing of a registration statement and the use of a prospectus. The SEC does not endorse any security or any dealer in securities. The Act merely provides a framework and means to assure full, fair and honest disclosure of the material aspects of any security offering.

Other sections of the Act are specifically directed, and, therefore, important to those individuals who sell securities.

The definition of "sale" is very broad. As provided in Section 2(3), "sale" includes any attempt or offer to dispose of a security, or solicitation of an offer to buy.

Prospectus requirements are detailed, and are found in several inter-related sections. Section 5(b)(1) forbids the use of interstate commerce or the mails for transmission of a prospectus not complying with Section 10; Section 5(b)(2) forbids the use of interstate commerce or the mails for the sale or delivery of a security not
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accompanied or preceded by a prospectus complying with Section 10. Section 10 itself calls for some of the same statements found in the registration statement.

Section 2 (10) defines a prospectus as including notices, circulars, ads, letters, or other communications, via any medium, which offer a security for sale. Generally there are two exceptions: (1) where a communication states from whom a Section 10 prospectus may be obtained and does no more than identify the security, state its price, and state by whom the orders will be executed (i.e., "tombstone" advertisements); and, (2) when the prospect already has in his/her possession a current and appropriate Section 10 prospectus.

As a result, the distribution of advertising material is permitted only if a Section 10 prospectus has already been provided or if the advertising material is no more than a "tombstone" ad. In any other situation, the advertising material could be construed to represent a prospectus and could be subject to prospectus requirements and, therefore, could involve criminal responsibility.

Generally, any sales activity involving interstate commerce or the mails must be preceded or accompanied by a Section 10 prospectus. As a practical matter, all securities are offered through means constituting interstate commerce and thus the limitations of the '33 Act are applicable. Additionally, the definition of a security has been interpreted broadly to include not only stocks and bonds but many other investment vehicles where a common enterprise relies on the efforts of others to make a profit. Therefore, where it can be established that an investment contract exists, the Act would apply.

Section 12 of the Securities Act provides for civil liability for failure to comply with prospectus provisions and for use of an untrue statement or material omission in the sale of a security involving interstate commerce or the mails; Section 17 makes unlawful the use of fraud, deceit, untrue statements, or material omissions in connection with a security sale involving interstate commerce or the mails. Criminal penalties for violation of the Act are established by Section 24. As securities may be delivered through the mails or interstate commerce, inducing sale, through an untrue statement or an omission of material fact, they would violate Section 12 of the 1933 Act whether or not the statements or omissions were themselves involved in interstate commerce.

SECURITIES EXCHANGE ACT OF 1934

The Securities Exchange Act of 1934 provides for the registration and regulation of securities exchanges, the registration of securities listed on such exchanges, and, under Section 12(g), the registration of securities traded over-the-counter whose issuers have total assets in excess of \$1 million and a class of equity securities held for record by at least 500 persons. It established for issuers of securities registered under the Act, financial and other reporting requirements, regulation of proxy solicitations, and requirements with respect to trading by directors, officers, and principal security holders.

The Act also provides for the registration and regulation of national securities associations and of broker/dealers doing business in the over-the-counter market. Included are provisions to prevent fraudulent, deceptive and manipulative acts and practices on the exchanges and in the over-the-counter markets, and authorizations for the Federal Reserve Board to regulate the use of credit in securities transactions. The purpose of these statutory requirements is to ensure the maintenance of fair and honest markets in securities transactions on the organized exchanges and in the over-the-counter markets.

SIPC MEMBERSHIP

MEMBERSHIP REQUIREMENT

Unless exempt from SIPC, all broker/dealers registered under Section 15(b) of the Securities Exchange Act of 1934 are required by law to display evidence of membership in the Securities Investor Protection Corporation (SIPC) and to meet SIPC payment requirements. SIPC membership is automatic for all broker/dealers registering under the 1934 Act on or after 4/1/86.

Colorado Financial Service is exempt from SIPC membership and requirements because its business consists exclusively of: i.) the distribution of shares of registered open end investment companies or unit investment trusts; ii.) the sale of variable annuities; and iii.) the business of insurance. To the extent this changes, the following requirements will be adhered to.

SIPC PROTECTION

SIPC is a nonprofit corporation, established by Congress under the Securities Investors Protection Act of 1970. The purpose of SIPC coverage is ensuring that the securities and cash in customers' brokerage accounts are returned to customer, in the event of the brokerage firm's failure. SIPC will not reimburse customers for losses; it will only ensure that customers receive the securities that the brokerage firm was holding for them when it failed. SIPC offers protection up to \$500,000 per customer, with a limit of \$100,000 on cash or cash equivalents.

It is extremely critical that Colorado Financial Service representatives have a complete understanding of what SIPC protection is and the difference between SIPC protection and FDIC insurance. All Colorado Financial Service representatives must accurately represent SIPC protection to customers and are expressly prohibited from misleading customers into thinking that their principal is insured, that their investment is protected against market risk, or otherwise misrepresenting the nature of SIPC coverage. When discussing SIPC protection with customers and in written correspondence and advertising, representatives must refrain from describing SIPC protection as "insurance".

SIPC REPORTS

BDAPPLICANT will prepare and submit the SIPC Annual Assessment report to FINRA within 30 calendar days of the first half of BDAPPLICANT 's fiscal year end. A record of the report and evidence of payment, along with supporting documentation, shall be retained among the central records as evidence of annual completion. Verification of the accuracy of the report shall be evidenced by the Designated Principal's signature on the report and/or on the accompanying check..

The Securities and Exchange Commission Rule 17a-5(e) (4) requires Broker/Dealers (who file annual audited financial statements) whose gross revenues are in excess of \$500,000, to file a supplemental independent public accountants report covering this SIPC-7T no later than 60 days after their fiscal year ends.

SIPC ASSESSMENTS

SIPC assessments must be calculated and are currently not less than a \$150 minimum.

DISPLAYING SIPC MEMBERSHIP

Broker/dealers are required to prominently display signage indicating SIPC membership at each office where the member conducts its business. In addition to displaying said evidence in the broker's place of business, SIPC membership must be made evident in "certain advertisements" by including at least the statement "Member SIPC." Members may, if they wish, use either of the following statements:

- "Member of SIPC, which protects securities customers of its members up to \$500,000 (including \$100,000 for claims for cash). Explanatory brochure available upon request"; or,
- "Member of SIPC. Securities in accounts protected up to \$500,000."

With respect to Colorado Financial Service's website, references to SIPC must include a web link to SIPC's website.

Any questions concerning SIPC membership or its requirements can be addressed to: **Securities Investor Protection Corporation, 900 Seventeenth Street, NW (Suite 800), Washington, DC 20006 (202/371-8300).**

SUPERVISION

Each designated principal shall ensure that appropriate SIPC disclosures are stated on all Colorado Financial Service advertising items and SIPC signs are displayed at each Colorado Financial Service office. The financial principal will be responsible for ensuring that all SIPC assessments are paid on a timely basis. Copies of the SIPC 6 and SIPC 7 assessment forms and proof of payment will be maintained by the financial principal.

STANDARDS OF SUPERVISION

Colorado Financial Service, through its principals and officers, has an affirmative obligation to perform proper supervision of its business activities under federal securities laws, the FINRA Rules, and state laws.

SUPERVISION UNDER THE SECURITIES EXCHANGE ACT OF 1934

The SEC has held that a violation of federal securities laws committed by officers or employees of a broker/dealer acting within the scope of their employment is a violation by the firm itself, and that the degree of fault of the firm is a factor to be considered in determining the sanction to be imposed.

The SEC is also authorized to proceed separately against the broker/dealer, its officers and supervisory employees for failure to adequately supervise the actual wrongdoers. In this connection "no person shall be deemed to have failed reasonably to supervise any person, if: (i) there were established procedures, and a system for applying such procedures, which could reasonably be expected to prevent and detect, insofar as practicable, any such violation by such other person; and (ii) such person has reasonably discharged the duties and obligations incumbent upon him or her by reason of such procedures and system without reasonable cause to believe that such procedures and system were not being complied with."

Thus, a broker/dealer, its officers and supervisory employees must enforce reasonable supervision over its securities activities with a view toward preventing violations of the federal securities laws. The importance of adequate compliance procedures is self-evident and **cannot be over emphasized**. The duty of a broker/dealer to maintain and enforce adequate standards of supervision extends to every aspect of its

activities. Customers dealing with a broker/dealer can expect and are entitled to be treated fairly and should be able to rely upon a broker/dealer to have systems of supervision and internal control over its employees providing safeguards against inadvertent violation of laws, rules, and regulations, and against those employees who may be tempted to engage in improper conduct. The SEC has stated that ".....where the failure of a securities firm and its responsible personnel to maintain and diligently enforce a proper system of supervision and internal control results in the perpetration of fraud upon a customer or in other misconduct in willful violation of the Securities Act or the Exchange Act, for purposes of applying the sanctions provided under the securities laws, such failure constitutes participation in such misconduct, and willful violations are committed not only by the person who performed the misconduct but also by those who did not properly perform their duty to prevent it." Reynolds & Co., 39 SEC 902,917 (1960).

FINRA Rules - Every FINRA member is required to establish, maintain and enforce written supervisory procedures in order to assure compliance by all broker/dealer personnel with the applicable securities laws, rules, and regulations. (FINRA Rules, Conduct Rule 3010). **State requirements may require specific written procedures, as well.**

Compliance Resource Allocation

It is imperative that persons given supervisory functions spend appropriate time in the compliance effort and exercise adequate supervision over the broker dealer and its employees. Persons delegated compliance functions must have sufficient knowledge, adequate training and a sufficient level of sophistication required for the position.

Nominal compliance is unacceptable. When a broker/dealer sets up a program to effect compliance with the statutory standards and requirements, the SEC has stated: "..... responsibility is not discharged by the setting up of a compliance program with the creation of a position designated Compliance Director which does not confer the authority and provide the personnel, procedures and means necessary to accomplish its objectives.

In such case there is created merely an appearance of an effective compliance mechanism. Persons who are assigned to positions of Compliance Directors should be accorded the powers to initiate and implement steps required to achieve compliance." Alfred Bryant Tallman, Jr., Securities Exchange Act Release No. 8830 (March 2, 1970).

Compliance Training

Inexperienced personnel can unintentionally cause problems for a broker/dealer. Sales personnel will undergo adequate training before they assume their duties. From time to time, consideration will be given to refresher and advanced training for all sales personnel in order to maintain and improve their competence and qualifications.

Special training will also be given, where necessary, to those to whom authority and responsibility has been delegated for the supervision and control of the broker/dealer (each office, function or activity). Persons in areas other than sales, such as administration, accounting, and finance, should also undergo necessary training and continuing education.

ERISA Liability

Brokerage firms may have liability under ERISA for actions of brokers. The ERISA (Employee Retirement Income Security Act) Act of 1974 is a law governing the operation of most private pension and benefit plans and establishes guidelines for the management of pension funds.

A broad interpretation of ERISA is that a brokerage firm acquires fiduciary status because one of its brokers executes transactions on behalf of an ERISA account. This is warranted by ERISA's broad protective purpose, the U.S. District court for the northern district of Georgia said **Stanton vs. Shearson Lehman/American Express Inc.** (Civil Action No. C84-1731A, April 3, 1986).

The court ruled against Shearson Lehman/American Express Inc. on the issue of whether it had acquired fiduciary status. The court agreed to the firm's request to reconsider, but declined to vacate its earlier ruling, contrary case law notwithstanding.

Acknowledging a case, **Robbins vs. First American Bank of Virginia**, in which a bank was held not to have acquired fiduciary status where it only performed ministerial functions, even though its employees dealt with ERISA assets, the court declined to follow that precedent.

The court found that unless a fiduciary duty to use due care in the training and supervision of brokers was imposed on brokerage firms, firms could escape ERISA liability for the actions of brokers outside the scope of their employment simply by not exercising diligence against those acts.

The court noted that it was not adopting a strict liability rule. Therefore, if a firm was reasonably diligent in training and supervising brokers assigned to ERISA accounts, it would not be liable. A brokerage firm would, however, be liable if it fails to train and supervise its brokers according to ERISA's fiduciary standards, and that failure leads to a loss in an ERISA plan.

The action was brought by the profit sharing and money purchase plans and their trustees with respect to the actions of the brokerage firm and one of its brokers for the "self direct(ed)" accounts of the plans' participants.

In its opinion, the court found that there was a factual question as to whether the broker acquired fiduciary status by exercising de facto control of the participant's assets. The court said even though a client might have the final word over the investment of assets, and thus be in technical control, it is the broker who is in effective and realistic control where the client "rubber stamps" the broker's recommendations. A jury will have to decide the extent to which the participant relied on the broker, the court said.

SUPERVISORY SYSTEM

Colorado Financial Service is required (by the FINRA) to establish and maintain a system by which it will supervise the activities of each registered representative and associated person in each type of business in which it is engaged; such system must be reasonably designed to achieve compliance with applicable securities laws and regulations. Colorado Financial Service must designate a registered principal with authority to carry out supervisory responsibilities for each type of business it is engaged in.

Reasonable efforts must be made to determine that all supervisory personnel are qualified by virtue of experience and/or training to carry out their assigned responsibilities. Such persons should be knowledgeable with respect to regulatory requirements and product line, experienced in the activities that take place in the office, and capable of exercising authority over subordinates. Any disciplinary history should be taken into account. This determination will be accomplished by review of the individual's employment application by experience, and/or through successful completion of an appropriate examination.

DESIGNATION OF CHIEF COMPLIANCE OFFICER

The firm's CCO is designated on Form BD, accordance with FINRA Rule 3013, and in the Appendix to this Manual. The designated registrations and licensing principal shall ensure that the CCO's designation on Form BD remains current.

ANNUAL CERTIFICATION OF COMPLIANCE AND SUPERVISORY PROCESSES

The firm's CEO (or equivalent officer) will certify annually that the firm has in place processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations, and that the chief executive officer has conducted one or more meetings with the CCO in the preceding 12 months to discuss such processes. The processes must be evidenced in a report that is provided to the member's board of directors and audit committee. The report must be produced prior to execution of the certification and be reviewed by the CEO, CCO, and any other officers the member deems necessary to make the certification. It should include the manner and frequency in which the processes are administered, as well as the identification of officers and supervisors who have responsibility for such administration. The report need not contain any conclusions resulting from the processes set forth therein. The report may be combined with any other compliance report or other similar report required by any other self-regulatory organization provided it meets certain requirements set forth in the interpretive material.

The CCO will ensure that:

- the content of the annual certification by the CEO satisfies regulatory requirements (see Appendix), and that all annual certifications are completed on a timely basis;
- all meetings between the CCO and CEO which will be relied upon to satisfy the requirements of Rule 3013 will be appropriately documented and retained;
- the required annual report is adequate in scope and submitted to the board of directors and/or audit committee, as applicable, on a timely basis prior to the execution of the CEO's annual certification statement;
- all annual reports are retained as required;

REVIEW OF SUPERVISORY SYSTEM

The FINRA requires broker/dealers to designate one or more principals who shall be responsible for reviewing the supervisory system, written supervisory policies and procedures, and implemented inspection system and for taking, or recommending to senior management, appropriate action reasonably designed to achieve compliance with applicable securities laws, rules and regulations. Colorado Financial Service has assigned this responsibility to the CCO of Colorado Financial Service. The principals of Colorado Financial Service, who have been designated with supervisory authority to carry out Colorado Financial Service's securities activities, shall also be responsible for reviewing the supervisory policies and procedures within their respective departments and for recommending appropriate action to their designated supervisory principal when such policies and procedures require modification or supplementation to provide reasonable assurance of compliance. In such event, the designated supervisory principal shall promptly communicate reported deficiencies to the CCO who shall be responsible for ensuring that any necessary modification or supplementation to the firm's supervisory policies and procedures are adopted and enforced.

In accordance with IM-3010-1, in making the annual assessment of Colorado Financial Service's supervisory system, the CCO will take into consideration, among other things, the firm's size, organizational structure, scope of business activities, number and location of offices, the nature and complexity of products and services offered, the volume of business done, the number of associated persons assigned to a location, whether a location has a principal on-site, whether the office is a non-branch location, the disciplinary history of registered representatives or associated persons, etc. The procedures established and the reviews conducted must provide that the quality of supervision at remote offices is sufficient to assure compliance with applicable securities laws and regulations and with FINRA Rules.

SUPERVISORY CONTROL SYSTEM

The Firm has designated the CCO to establish, maintain, and enforce a system of supervisory control policies and procedures that (A) test and verify that the member's supervisory procedures are reasonably designed with respect to the activities of the member and its registered representatives and associated persons, to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules and (B) create additional or amend supervisory procedures where the need is identified by such testing and verification.

The CCO shall ensure that the establishment, maintenance, and enforcement of written supervisory control policies and procedures includes:

(A) procedures that are reasonably designed to review and supervise the customer account activity conducted by producing managers, which shall include; branch office managers, sales managers, regional or district sales managers, or any person performing a similar supervisory function. A person who is either senior to, or otherwise independent of, the producing manager must perform such supervisory reviews. For purposes of this Rule, an "otherwise independent" person: may not report either directly or indirectly to the producing manager under review; must be situated in an office other than the office of the producing manager; must not otherwise have supervisory responsibility over the activity being reviewed (including not being directly compensated based in whole or in part on the revenues accruing for those activities); and must alternate such review responsibility with another qualified person every two years or less.

The CCO is responsible for identifying all producing managers no less frequently than quarterly (see Appendix), and for documenting the nature of all changes to the firm's identification of producing managers, including the assessment date and all work papers. In addition, the CCO is responsible for identifying the "senior to or otherwise independent" person assigned to supervise producing managers' customer account activity. Supervisory procedures pertaining to reviews of producing manager's customer account activity are the same as those described in the "Customer Account Activity Review" section of this manual.

The Firm may be so limited in size and resources ("LSR") that it has no qualified person senior to, or otherwise independent of, a producing manager to conduct the above reviews in certain circumstances. In these instances, the firm claims the LSR exemption to Rule 3012. The CCO is responsible for determining the validity of the exemption and for notifying the firm's primary SRO of the exemption in writing (upon effectiveness of this requirement).

The firm will assign responsibility for reviews for which the LSR exemption is claimed to a principal who is sufficiently knowledgeable of the firm's supervisory control procedures to administer this function. Such principal's qualifications, experience, and competency to conduct the assigned reviews, will also be determined as satisfactory to satisfy the supervisory control rules. The factors considered in determining that the firm qualifies for the LSR exception include:

- the firm does not employ persons who are senior to, or otherwise independent of, designated producing managers;
- the firm has only one registered office; and,
- there is an insufficient number of qualified personnel who can conduct reviews on a two-year rotation.

(B) procedures that are reasonably designed to review and monitor the following activities:

- (i) all transmittals of funds (e.g., wires or checks, etc.) or securities from customers to third party

- accounts (i.e., a transmittal that would result in a change of beneficial ownership); from customer accounts to outside entities (e.g., banks, investment companies, etc.); from customer accounts to locations other than a customer's primary residence (e.g., post office box, "in care of" accounts, alternate address, etc.); and between customers and registered representatives, including the hand-delivery of checks (see Cashiering Policies and Procedures);
- (ii) customer changes of address and the validation of such changes of address (see Review of Changes to New Account Documentation); and
 - (iii) customer changes of investment objectives and the validation of such changes of investment objectives (see Review of Changes to new Account Documentation).

The policies and procedures established pursuant to paragraph (B) must include a means or method of customer confirmation, notification, or follow-up that can be documented. If Colorado Financial Service does not engage in all of the activities enumerated above, the CCO shall identify those activities in which it does not engage in its written supervisory control policies and procedures and document in those policies and procedures that additional supervisory policies and procedures for such activities must be in place before the member can engage in them; and

(C) procedures that are reasonably designed to provide heightened supervision over the activities of each producing manager who is responsible for generating 20% or more of the revenue of the business units supervised by the producing manager's supervisor. For the purposes of this subsection only, the term "heightened supervision" shall mean those supervisory procedures that evidence supervisory activities that are designed to avoid conflicts of interest that serve to undermine complete and effective supervision because of the economic, commercial, or financial interests that the supervisor holds in the associated persons and businesses being supervised. In addition, for the purpose of this section only, when calculating the 20% threshold, all of the revenue generated by or credited to the producing manager or the producing manager's office shall be attributed as revenue generated by the business units supervised by the producing manager's supervisor irrespective of a member's internal allocation of such revenue. A member must calculate the 20% threshold on a rolling, twelve-month basis.

The CCO shall, on a quarterly basis, identify in writing all producing managers subject to heightened supervision based upon the above cited criteria. The CCO shall consider shall consider the following heightened supervisory procedures:

1. Broader sampling sizes;
2. Broader scope of activities inspected; and,
3. Having one or more principals involved in heightened supervisory reviews.

Upon reviewing the above, the CCO is responsible for adopting and maintaining a final heightened supervision plan for each applicable producing manager.

TESTING /VERIFICATION OF WSP's AND CONTROL PROCESSES

The firm's testing and verification involves two separate components: i.) periodically testing and verifying that the firm's written supervisory procedures are adequate in their ability to promote reasonable assurance that Colorado Financial Service's activities will be conducted in conformance with applicable regulatory standards; and, ii.) verification and testing of required supervisory processes. With respect to this component, Colorado Financial Service's will selectively test the implementation of proscribed written supervisory procedures in order to assess the extent to which such processes are adequately implemented.

1. Testing of Written Supervisory Procedures: The CCO will verify the adequacy of the firm's written supervisory procedures as follows:

- a. Regulatory advisories (including FINRA Notice to Members) will be continuously monitored. To the extent such advisories require changes to the firm's supervisory procedures, the CCO will ensure that appropriate changes are made and distributed to appropriate personnel within a reasonable period of time following the applicable rule's effective date;
 - b. The CCO will periodically, and not less than annually, conduct a comprehensive test of the firm's procedures to verify their adequacy. Such test will be documented by the CCO and may include the following elements:
 - i. Inventorying and identifying all of the firm's securities activities through review of Form BD, membership agreement, business profile and new product committee documentation, interviews of department heads, and such other measures as may be helpful in identifying all securities activities conducted by the firm;
 - ii. Identifying all securities regulations applicable to the firm's identified securities activities and methods of conducting them. With respect to this, the CCO will consider using resources made available by regulatory agencies such as WSP checklist;
 - iii. Identifying Firm's own internal policy requirements which may be more restrictive than actual rules and regulations;
 - iv. Identifying regulatory events (e.g., customer complaints, regulatory actions, internal inspection findings) which may call into question whether the firm's supervisory processes are sufficient;
 - v. Requesting department heads and supervisors to review and provide feedback as to the adequacy of written supervisory procedures effecting their respective business areas;
 - vi. Based upon the CCO's analysis and evaluation of the above, gaps or deficiencies in written supervisory procedures identified shall be addresses in a timely manner. To the extent the firm's procedures are not current; the CCO will make any necessary deletions, modifications, and additions and distribute any new or modified procedures to relevant staff in a timely manner.
2. Verification and Testing of Supervisory Processes: The CCO will verify the adequacy of the firm's implementation of supervisory processes as follows:
- a. Based upon the CCO's review of the Firm's written supervisory procedures, the CCO shall identify procedures for targeted testing. In determining the supervisory procedures to be tested, the CCO shall consider:
 - i. The extent to which any failure of the procedure could jeopardize customer protection and market integrity;
 - ii. The extent to which deficiencies have been detected in any particular area of business conduct;
 - iii. Consistently including the following areas for targeted testing:
 1. supervision of customer account activity, including activity in producing manager's customer accounts;
 2. new account review/approval procedures;
 3. transaction review/approval procedures;
 4. outgoing correspondence review/approval procedures;
 5. heightened supervision procedures;
 6. transmittals of funds (e.g., wires or checks, etc.) or securities: i.) from customers to third party accounts (i.e., a transmittal that would result in a change of beneficial ownership); ii.) from customer accounts to outside entities (e.g., banks, investment companies, etc.); iii.) from customer accounts to locations other than a customer's primary residence (e.g., post office box, "in care of" accounts, alternate address, etc.); and iv.) between customers and registered representatives, including the hand-

- delivery of checks (see Cashiering Policies and Procedures);
 - 7. (ii) customer changes of address and the validation of such changes; and
 - 8. customer changes of investment objectives and the validation of such changes.
- b. To the extent that internal inspections are identified as an appropriate means of conducting testing, the CCO shall ensure that the scope and methodology is reasonable to perform the targeted testing, and that the persons performing the inspections are sufficiently qualified;
 - c. The CCO shall oversee the preparation of records necessary to evidence the testing conducted, testing methodology and scope, test results including significant identified exceptions, and corrective actions taken (including changes and additions to written supervisory procedures);
 - d. By April 1, 2006 and annually from each date thereafter, the CCO shall prepare a report, and submit it to senior management, detailing the Firm's system of supervisory controls, summary of test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results.

REVIEW OF FIRM'S BUSINESSES

The Firm will conduct a review, at least annually, of each business engaged in designed to detect and prevent violations of, and achieving compliance with, securities laws and regulations.

REVIEW OF OFFICES

Annual review of the firm's businesses shall also include consideration as to whether its offices must also be reviewed and inspected. Colorado Financial Service shall inspect at least annually every office of supervisory jurisdiction and any branch office that supervises one or more non-branch locations and shall inspect at least every three years every branch office that does not supervise one or more non-branch locations. Colorado Financial Service shall inspect on a regular periodic schedule every non-branch location.

Colorado Financial Service has established a Branch Office Inspection Schedule and designated inspectors (see Appendix). The inspection cycle has been established considering the nature and complexity of the securities activities for which the location is responsible, the nature and extent of contact with customers, the nature and complexity of the securities activities for which the location is responsible, the volume of business done, and the number of associated persons assigned to the location.

Unless specifically approved in writing by the CCO, all office inspections shall include reviews of:

1. Customer accounts and activity to detect and prevent irregularities or abuses;
2. Safeguarding of customer funds and securities;
3. Maintaining books and records;
4. Supervision of customer accounts serviced by branch office managers;
5. Transmittal of funds between customers and registered representatives and between customers and third parties;
6. Validation of customer address changes; and
7. Validation of changes in customer account information.

Colorado Financial Service shall retain a written record of each inspection for a minimum of three years and such report shall address the testing and verification of the firm's procedures in the above areas. To the extent the above activities are not conducted by the inspected office, the written report must state this. If the inspection schedule for any office exceeds three years, the record shall be kept on file at least until the next inspection report has been written.

The office inspection shall not be conducted by the branch office manager or any person within that office who has supervisory responsibilities or by any individual who is supervised by such person(s). However, if the firm's size and limited resources ("LSR") are such that it cannot comply with this limitation (e.g., a firm with only one office or a firm having a business model where small or single-person offices report directly to an office of supervisory jurisdiction manager who is also considered the offices' branch office manager), the firm may claim the LSR exemption by appointing a principal who has the requisite knowledge to conduct an office inspection perform the inspections. In such cases, the CCO will document in the office inspection reports the factors it has relied upon in determining that it is so limited in size and resources that it has no other alternative than to comply in this manner. The CCO shall also advise FINRA in writing of the claimed LSR exemption (upon effectiveness of this requirement).

Heightened Supervision of Office Inspections:

The firm will perform heightened office inspections if the person conducting the inspection reports to the branch office manager's supervisor or works in an office supervised by the branch manager's supervisor and the branch office manager generates 20% or more of the revenue of the business units supervised by the branch office manager's supervisor. For the purpose of this section only, the term "heightened inspection" shall mean those inspection procedures that are designed to avoid conflicts of interest that serve to undermine complete and effective inspection because of the economic, commercial, or financial interests that the branch manager's supervisor holds in the associated persons and businesses being inspected. In addition, for the purpose of this section only, when calculating the 20% threshold, all of the revenue generated by or credited to the branch office or branch office manager shall be attributed as revenue generated by the business units supervised by the branch office manager's supervisor irrespective of Colorado Financial Service's internal allocation of such revenue. Colorado Financial Service must calculate the 20% threshold on a rolling, twelve-month basis.

The CCO shall be responsible for identifying inspections which are subject to the above heightened supervisory procedures and shall consider the following heightened supervisory procedures:

1. Unannounced office inspections;
2. Increased frequency of inspections;
3. Broader sampling sizes;
4. Broader scope of activities inspected; and,
5. Having one or more principals review and approve office inspections.

Upon reviewing the above, the CCO is responsible for adopting and maintaining a final heightened supervisory inspection plan for each office requiring such.

Definitions:

"Office of Supervisory Jurisdiction" means any office of a member at which any one or more of the following functions take place:

- (A) order execution and/or market making;
- (B) structuring of public offerings or private placements;
- (C) maintaining custody of customers' funds and/or securities;
- (D) final acceptance (approval) of new accounts on behalf of the member;
- (E) review and endorsement of customer orders, pursuant to paragraph (d) above;
- (F) final approval of advertising or sales literature for use by persons associated with the member; or
- (G) responsibility for supervising the activities of persons associated with the member at one or more other branch offices of the member.

"Branch Office" means any location identified by any means to the public or customers as a location at

which the member conducts an investment banking or securities business, excluding:

- (i) any location identified in a telephone directory line listing or on a business card or letterhead, which listing, card, or letterhead also sets forth the address and telephone number of the branch office or OSJ of the firm from which the person(s) conducting business at the non-branch locations are directly supervised;
- (ii) any location referred to in a member advertisement, as this term is defined in Rule 2210, by its local telephone number and/or local post office box provided that such reference may not contain the address of the non-branch location and, further, that such reference also sets forth the address and telephone number of the branch office or OSJ of the firm from which the person(s) conducting business at the non-branch location are directly supervised; or
- (iii) any location identified by address in a member's sales literature, as this term is defined in Rule 2210, provided that the sales literature also sets forth the address and telephone number of the branch office or OSJ of the firm from which the person(s) conducting business at the non-branch locations are directly supervised.
- (iv) any location where a person conducts business on behalf of the member occasionally and exclusively by appointment for the convenience of customers, so long as each customer is provided with the address and telephone number of the branch office or OSJ of the firm from which the person conducting business at the non-branch location is directly supervised.

Notwithstanding any exclusions provided any location that is responsible for supervising the activities of persons associated with the member at one or more non-branch locations of the member is considered to be a branch office.

A member may substitute a central office address and telephone number for the supervisory branch office or OSJ locations provided it can demonstrate to the Association's District Office having jurisdiction over the member that it has in place a significant and geographically dispersed supervisory system appropriate to its business and that any investor complaint received at the central site is provided to and resolved in conjunction with the office or offices with responsibility over the non-branch business location involved in the complaint.

The FINRA requires that each OSJ branch office maintain a copy of the FINRA's manual (the soft copy will suffice). Each branch office (OSJ and non-OSJ) must maintain a WSP Manual. One or more registered principals must be designated in each OSJ branch office with authority to carry out supervisory responsibilities.

ANNUAL COMPLIANCE MEETING

At least annually, each registered person must participate in an interview or meeting at which relevant compliance matters will be discussed. The purpose of such meeting will be to discuss important compliance issues and insure all registered representatives are aware of their compliance responsibilities. All registered representatives will also have an opportunity to ask questions relating to compliance issues.

The firm may conduct its annual compliance meeting with registered representatives in conjunction with the annual branch office inspection or scheduled sales meetings. The CCO and/or the designated principals will conduct such meetings. Furthermore, all registered representatives and associated persons of Colorado Financial Service will be required to complete an annual compliance questionnaire (**see Appendix**) designed to reinforce compliance awareness of Colorado Financial Service policies and procedures and relevant securities laws, rules and regulations.

TRANSACTION APPROVAL

All transactions (e.g., applications) shall be promptly endorsed in writing by the designated principal. Such approval will evidence the order's compliance with all of the regulations and procedural standards addressed in this manual, including the following:

Required Information on Order Memoranda/Application:

- Name/Number/Other Designation of customer account
- Name of Security
- Amount of order or # shares
- Term and conditions of order
- Registered Representative
- If discretionary power is used.
- Initials of registered principal reviewing order

CHANGES TO ACCOUNT NAME OR DESIGNATION

Changes to Account Name or Designation on Order Memoranda

All changes to the account name or designation (including error accounts) of unexecuted orders/transactions are required to be submitted by each RR to their designated principal for written approval prior to effecting the change. Prior to approving any such change, the designated principal will inquire as to the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member, which will be retained for a period of not less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in SEC Rule 17a-4.

CUSTOMER ACCOUNT ACTIVITY REVIEW

In addition to reviewing and approving all transactions, the designated principal(s) shall conduct quarterly reviews of customer account activity. The primary purpose of these reviews will be to detect potential sales practice problems and abuses including unsuitable recommendations, unauthorized trading and excessive trading. The reviews will entail relating the customer's financial status and objectives to the activity in the customer's account. If the above review procedures reveal suitability or other potential problems, the designated principal(s) should promptly inform the CCO. If any unauthorized or suspicious trades are detected either in the daily review or other reviews, steps will be taken to immediately investigate this activity. The steps taken may include obtaining further documents, talking to the registered representative or other involved parties, visiting with the customer, etc. Detailed notes shall be prepared and maintained describing the events, facts uncovered and actions taken. If fraudulent or other questionable activities are confirmed, Colorado Financial Service should take immediate steps to suspend or terminate the person involved.

The designated principal(s) shall conduct and evidence such reviews through reviews of all "off-quarterly" statements which capture all significant activity other than systematic investments. With respect to customer accounts of producing managers, however, the designated principal is required to review all quarterly

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customer statements which capture all account activity. Evidence of such reviews shall be retained in the customers' files.

INCOMING MAIL PROCEDURES

The following procedures and guidelines are designed to insure compliance with SEC and FINRA rules and policies requiring Colorado Financial Service to monitor all incoming mail, regardless of whether addressed to a registered representative or to the firm itself. The procedures should also insure that all mail received is controlled and routed in an expeditious manner. The assigned principal should supervise all procedures relating to incoming and outgoing mail.

- All incoming mail must be opened, sorted and distributed only by designated staff that have been finger-printed. All checks and securities must be immediately transmitted to the cashiering department, regardless of whom the envelope was addressed to. Any written instructions relating to securities and money movements shall be reviewed and processed only by designated staff.
- Registered representatives and other office personnel must arrange to have all personal mail (i.e., non business) addressed to somewhere other than their respective offices. Only mail related to Colorado Financial Service's business is to be addressed to the firm's office location.
- The designated principal is responsible for insuring that each item of mail is distributed to the appropriate individual or department.
- Copies of all letters should be kept for a period of six years.
- Personnel involved in mail distribution must be instructed to immediately deliver mail to a principal when salespersons are absent for any reason. Under no circumstances is mail to be left unattended on a salesperson's desk.
- All return mail envelopes will be opened, regardless of any notations on the envelope. However, other mail marked "Personal" or "Personal and Confidential" will be given directly to the principal for opening in the registered representative's presence.

The above outlined procedures do not apply to inter-office mail dealing with internal firm matters. Inter-office mail marked "Personal," "Confidential," or "Personal and Confidential" will continue to be delivered unopened to the addressee.

HOLDING CUSTOMER MAIL

Upon the written instructions of a customer, a member may hold mail for a customer who will not be at his or her usual address for the period of his or her absence, but (A) not to exceed two months if the member is advised that such customer will be on vacation or traveling or (B) not to exceed three months if the customer is going abroad.

RR's are required to report all requests to hold customer mail to their designated principal prior to beginning receipt of the mail. The designated principal shall inquire about the essential facts relating to the request and document the reason(s) for holding the mail (if approved) and track all mail holding by creating and maintaining a log with the following information:

- Name of Customer;
- Date holding period commenced;

- Date holding period ended and mail re-delivered to customer;

OUTGOING MAIL PROCEDURES

Outgoing written and email correspondence are subject to the firm's policies and procedures set forth in the "Communications with the Public" section of this manual.

ASSIGNMENT OF REPRESENTATIVES TO SUPERVISORS

Each registered representative shall be assigned to a registered principal who shall be responsible for supervising the activities of the representative (see Appendix).

SUPERVISION OF OFF-SITE PERSONNEL

Any associated persons registered with Colorado Financial Service are considered "employees" for purposes of FINRA compliance, regardless of whether they are employed full- or part-time, off-site, or whether they are engaged in separate businesses or classified as "independent contractors" for compensation purposes. Accordingly, they are subject to supervision by Colorado Financial Service. Therefore, the following must be carried out and enforced by Colorado Financial Service:

- Education of personnel as to their responsibilities, including prohibited sales practices;
- Maintenance of a schedule of regular contact with such off-site individuals;
- Supervision of off-site personnel by, or through
 - inspections and audits, including reviewing customer accounts and other records, sales methods, and at least an annual inspection of OSJs,
 - reviewing correspondence and sales literature to ensure written approval by the firm and compliance with applicable regulations,
 - on-site review of any individuals designated responsibility for reviewing other registered persons' activities,
 - insuring compliance with the Private Securities Transactions Rule - Conduct Rule 3040,
 - insuring compliance with FINRA Rule 3060 (Influencing or Rewarding Employees of others). A broker/dealer or associated person is prohibited from giving anything in excess of \$100 value per individual per year in relation to the business of the recipient's employer, unless such employer consents by written agreement. (This is applicable as well to associated persons of another member firm.),
 - insuring compliance with advertising and sales literature requirements.

All advertising and sales literature must be approved by signature, or initial, of a registered principal, or his/her designee, prior to use; the advertising and sales literature file must be maintained for three years. All such material must contain the name of the member firm, and

- insuring that such off-site persons or "independent contractors" are under Colorado Financial Service's control, and not operating as unregistered broker/dealers; and,
- Continuous review of the number of registered representatives to determine if an adequate number of principals are in place for proper supervision.

For more information on the supervision of off-site personnel, please refer to "FINRA Notice to Members #86-85."

HEIGHTENED SUPERVISION

Colorado Financial Service acknowledges that heightened supervision procedures and special educational programs may be required pursuant to Notice To Members 97-19 and/or by regulation for an Associated Person whose record reflects disciplinary actions or sales practice events. Colorado Financial Service will institute heightened supervision for RRs or others when appropriate. The following sections describe Colorado Financial Service's procedures for identifying RRs subject to heightened supervision and the types of supervision that may be conducted.

Identifying RRs For Heightened Supervision

It is the responsibility of CCO to identify RRs for potential heightened supervision. RRs will be identified at the time of hire or when an RR becomes subject to events, such as regulatory actions, customer complaints, or other potential misconduct, triggering heightened supervision consideration. Individuals who were previously registered and the subject of customer or regulatory complaints are also subject to consideration for heightened supervision.

Criteria For Identifying Candidates For Heightened Supervision

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

- Three or more customer complaints alleging sales practice abuse within the past two years (complaints include written complaints, arbitrations, other civil actions);
- Complaint filed by a regulator;
- Injunction in connection with an investment-related activity
- Termination for cause or permitted to resign from a former employer where the termination appears to involve a significant sales practice or regulatory violation
- Employment with three or more broker-dealers in the past five years

Heightened Supervision Memorandum

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

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

and return copies of the memorandum to Compliance.

Scope Of Potential Heightened Supervision

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

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

Certification By RR's Supervisor

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

REVIEW OF WRITTEN SUPERVISORY PROCEDURES

The CCO shall regularly monitor changes to: i) the firm's business; and ii.) regulatory standard, and shall conduct periodic, and no less than annual, assessments of the firm's businesses and recent rule enactments and amendments which verify that the firm's procedures reasonably address all relevant rules and regulations. The CCO shall amend the firm's written supervisory procedures as appropriate within a reasonable time following the detection of necessary changes. Colorado Financial Service's President shall authorize all changes to the firm's written supervisory procedures. The CCO shall be responsible for communicating all procedural and policy changes in the amended WSPs to appropriate personnel and departments responsible for the implementation of changes.

APPLICATION OF WRITTEN SUPERVISORY PROCEDURES

The securities activities engaged in by the firm are designated on its Form BD and detailed in other regulatory documentation, such as the firm's membership agreement. To the extent that this procedures manual addresses business areas not conducted by the firm or relevant to the firm at the present time, the related policies and procedures are incorporated for reference only as these areas of business may become relevant to the firm in the future.

AVAILABILITY OF WRITTEN SUPERVISORY PROCEDURES

Each designated principal responsible for the conduct of activities in each OSJ or office where supervisory activities are conducted shall ensure that Colorado Financial Service's written supervisory procedures, or the relevant portions thereof, are kept and maintained in such locations.

REVIEW AND COMPLIANCE WITH MEMBERSHIP AGREEMENT

To the extent CFSC is subject to an FINRA membership agreement, the CCO shall be responsible for periodically affirming the firm's compliance with all terms, conditions, and restrictions set forth. No less than annually, the CCO shall review the membership agreement in order to verify the firm's compliance.

DESIGNATION OF REGISTERED PRINCIPALS

A designated registered principal must be assigned and given authority to carry out the supervisory responsibilities for each type of business engaged in (including general securities, mutual funds, variable annuities, governments, municipals and options). Designated principals are permitted to transfer supervisory responsibilities to other qualified principals who they have direct supervisory authority over. All such designations may become effective only after written approval is given by the President of Colorado Financial Service. As required by Conduct Rule 3010 of the FINRA Rules, Colorado Financial Service maintains a written record of principal designations (see Appendix).

APPROVAL OF NEW AND MODIFIED PRODUCTS

CFSC requires all new products intended to be offered/sold to customers to undergo a review process designed to uncover and address issues from a regulatory as well as a business perspective. "New products" are considered by CFSC as those securities products which are intended to be offered/sold to our customers but which have not been offered or sold within the prior 12-month period to any customer of the firm. New products are required to be reviewed and approved (in writing) by CFSC prior to being offered/ sold to customers unless exempted from the new product policies and procedures (described below) by the President.

Important Note: Although new products do not include modifications to existing products which are presently being offered and sold by registered personnel, CFSC prohibits all representatives from offering and selling any existing product which incorporates new characteristics and features (such as disclosure and suitability requirements) that materially change the manner in which the product is required to be offered/sold until written approval is obtained. Any RR interested in selling such existing products must submit a written request to their designated supervisor which shall delineate the nature of the changes inherent in the product. Upon receipt of such request, the designated principal shall submit it to the CCO. The existing product may not be offered/sold unless and until the designated supervisor and CCO approve the request in writing.

All new product requests and evaluations must be approved in writing by the new product committee, which shall include appropriate representatives of sales, operations, and compliance departments. New products shall not be approved until all characteristics and features that materially affect the manner in which the product is required to be offered/sold, including regulatory and operational aspects, are identified and evaluated. FINRA NTM 05-26 includes a list of questions which should be used by the committee in assessing these issues. The new product committee shall allocate responsibilities qualified staff in order to ensure that appropriate training, compliance and supervisory controls, and operational enhancements are in place prior to rolling-out a new product. Each committee member's written approval is required prior commencing the roll-out of new products.

OUTSOURCING RESPONSIBILITIES

Colorado Financial Service may periodically contract with other vendors and service providers to perform certain activities and functions related to its business operations and regulatory responsibilities that Colorado Financial Service would otherwise perform itself. Such "outsourcing" is subject to the following policy and procedure standards in accordance with FINRA NTM 05-48 and 05-49.

Prior to entering into outsourcing arrangements, and on an annual basis, the designated principal is responsible for implementing the following procedures:

1. Consider whether covered activities contemplated for outsourcing are appropriate for outsourcing after evaluating factors such as:
 - a. the financial, reputational, and operational impact on Colorado Financial Service if the third-party service provider fails to perform;
 - b. the potential impact of outsourcing on Colorado Financial Service's provision of adequate services to its customers; and
 - c. the impact of outsourcing the activity on the ability and capacity of Colorado Financial Service to conform with regulatory requirements and changes in requirements.
2. Conduct a due diligence analysis of all of its current or prospective third-party service providers to determine whether they are capable of performing the outsourced activities. The nature and extent of this analysis will vary depending upon the arrangement under scrutiny. Nonetheless, the following due diligence procedures should be considered:
 - a. Request/review of references;
 - b. Review resources and databases (e.g., BBB, Dunn & Bradstreet) which may offer information on the organization under review;
 - c. Interview Colorado Financial Service's employees who have direct experience with the outsource company;
 - d. Interview employees of the outsource company involved in the project.
3. Obtain all contractual agreements and monitor the service provider's compliance with the terms and periodically assess the service provider's continued fitness and ability to perform the covered activities being outsourced and assurance that shared information is kept confidential (i.e. reviewing the confidentiality agreement being used with each outsourced company).
4. Consider whether FINRA and all other applicable regulators have the same complete access to the service provider's work product, as would be the case if the covered activities had been performed directly by Colorado Financial Service.
5. Consider whether the activities and functions under consideration are prohibited from being outsourced. It is FINRA's view that the performance of the following covered activities are prohibited:
 - a. Activities which require qualification and registration cannot be outsourced because the person performing the activity is an associated person of the member irrespective of whether such person is registered with the member. An exception would be where a third-party service provider is separately registered as a broker-dealer and the contracted arrangement between the member and the service provider is contemplated by FINRA rules, MSRB rules, or applicable federal securities laws or regulations. An example of such an exception would be a clearing agreement executed pursuant to FINRA Rule 3230 between a member and a clearing broker-dealer;
 - b. Supervisory and compliance activities which are contracted away from Colorado Financial Service's direct control. This prohibition, however, does not preclude Colorado Financial Service from outsourcing certain activities that support the performance of its supervisory and compliance responsibilities.

The designated principal is responsible for preparing and retaining documentation evidencing the implementation the above policies and procedures including the confidentiality agreement. To the extent any concerns develop relating to outsourcing relationships, they should be communicated promptly to the CCO. This includes following up on red flags identified by monitoring the outsourcing company or through customer complaints.

A list of outsourced functions, the responsible parties, and the assigned supervisor is in the appendix of this manual.

REGISTRATION, QUALIFICATION, AND EDUCATION

REGISTRATION FORM FILINGS

The designated registration/licensing principal shall be responsible for ensuring that all applicable form filings, including Forms U4, U5, BR, BD, BDW, and amendments, are submitted electronically in accordance with FINRA Rule 1140 within the proscribed time-period. This principal shall have the responsibility to review and approve the forms filed pursuant to this Rule shall be required to acknowledge, electronically, that he is filing this information on behalf of the member and the member's associated persons.

FORM BD and Form BD AMENDMENTS

The designated registration/licensing principal shall be responsible for ensuring that the firm's Form BD is kept current at all times and that all required amendments to the application are filed with the FINRA not later than 30 days after learning of the facts or circumstances giving rise to the amendment.

FORM BR and Form BR AMENDMENTS

The designated registration/licensing principal shall be responsible for filing the uniform branch office registration form (Form BR) with the CRD to register new offices and for filing Form BR Amendments to reflect changes to existing offices. Compliance retains records of branch registration filings.

APPOINTMENT AND UPDATES OF EXECUTIVE REPRESENTATIVE

The designated registrations and licensing principal shall ensure that the firm's executive representative appointment remains current and that such person is a member of senior management and registered principal of Colorado Financial Service. This principal, or designee, shall also review and, if necessary, update the firm's executive representative designation and contact information as required by Article IV, Section 3 of the FINRA By-Laws within 17 business days after the end of each calendar quarter.

Each executive representative shall maintain an Internet electronic mail account for communication with the FINRA and shall update firm contact information via the FINRA Regulation Web Site or such other means as prescribed by the FINRA.

REGISTRATION DETERMINATIONS

Colorado Financial Service prohibits all of its associated persons from acting in a registered¹ capacity unless such persons are appropriately qualified and registered with the FINRA. Each designated principal is responsible for evaluating new employees' job functions and determining whether the functions require the individuals' registration with the FINRA. If so, the designated principal shall ensure that a Form U-4 is promptly filed with the FINRA and the appropriate examinations are requested. Under no circumstances, may individuals be allowed to function in the capacity of representatives or principals unless they are registered with the FINRA, designated by Colorado Financial Service to serve in this capacity, and have passed the necessary qualification examinations.

¹*Any individual who is actively engaged, on a day-to-day basis, in the management of Colorado Financial Service's securities business, including supervision, solicitation, conduct of business or training is **required to be designated and registered as a principal.***

*Any individual who is actively engaged, on a day-to-day basis, in Colorado Financial Service's securities business, including the functions of supervision, solicitation, conduct of business in securities, or training is **required to be registered as a representative.***

FORM U-4

Applications for employment of registered representatives are prepared by the prospective employee on Form U-4. The designation registration principal shall ensure that Colorado Financial Service retains in its files a manually completed and signed Form U4 for each of its representatives. This Form must be completed in its entirety. All Form U-4s shall be reviewed and signed by a designated principal before electronic submission to the FINRA/CRD and other regulatory agencies and respective exchanges. Communication with former employers, as required by Form U-4 in order to verify the employment history of new representatives, shall be carried out by the designated registration principal or designee.

DISCLOSURE TO NEW EMPLOYEES

The designated principal shall ensure that associated persons hired by Colorado Financial Service are provided with the following written statement whenever the associated person is asked to sign a new or amended Form U-4.

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

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

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

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

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

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

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

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

NEW EMPLOYEE BACKGROUND CHECK

Each registered person's experience, qualifications, character and business repute shall be investigated prior to registration as required by Conduct Rule 3010 of the FINRA Rules.

Investigation of New Employees

- Employment Forms - The following forms must be completed by all employees at the time of their employment:
 - Form U-4;
 - Written notice of whether or not an employee or his/her spouse has an account with any securities firm;
 - All required personnel and tax documentation such as IRS Form W4;
 - Fingerprint card;
 - Employment questionnaire and other documentation (if required).
- A three-year (minimum) check of applicant's employment history, as set forth in the employment application, shall be conducted by the registered representative's designated principal. The check may be in written form or made by telephone.
- The designated registration principal shall ensure that the Firm has reviewed a copy of any Form U-5 filed by such person's most recent previous FINRA member employer, together with any amendments thereto that may have been filed, and shall retain such documentation in the firm's files. This review shall be conducted no later than sixty (60) days following the filing of the application for registration. If not done, the designated registration principal must be able demonstrate that reasonable efforts were made to comply with the requirement.

FINGERPRINTING

The designated principal (which may be the CCO, OSJ, or Branch Manager) will ensure that all associated persons who are not exempt from the requirements of SEC Rule 17f-2 are fingerprinted within 30 days of association with the firm. All fingerprints will be submitted to the FBI via the FINRA. Upon return of any RAPP sheet, the designated principal will evidence review of the RAPP sheet and communicate the information in the RAPP sheet to the representative's designated principal.

STATUTORILY DISQUALIFIED INDIVIDUALS ("SDI'S")

Prior to hiring any person, including those being considered for clerical or ministerial positions, the Firm is responsible for determining whether the person is statutorily disqualified pursuant to federal and/or SRO regulations. Such determinations shall be made in accordance with the firm's hiring procedures, interview processes, background checks, and fingerprinting procedures. Should the Firm determine to hire any SDI in the future, it shall develop a comprehensive heightened supervision plan and incorporate such plan in the required Form MC-400 application pursuant to FINRA By-Laws, Article II, Section 4. The President and CCO shall both sign-off on the MC-400 application and heightened supervision plan. In no event shall the firm permit any SDI to associate with the firm in any respect until the MC-400 application is approved by FINRA.

FORM U-5

Upon termination of a registered person, the Firm shall electronically file a Form U-5 with the FINRA and

other regulatory authorities within 30 days of termination. The firm shall also provide a copy of the Form U-5 to the terminated person within 30 days of termination. Upon employing an individual previously registered with another broker/dealer, Colorado Financial Service shall request and obtain a copy of the individual's Form U-5 within 30 days of submitting the individual's Form U-4. Upon request by the Firm, the individual is required to provide the Form U-5 within two business days, if the Form U-5 had been previously provided to the person by his or her former employer. If a former employer has failed to provide the Form U-5 to the applicant, the applicant is required to promptly request a copy of the Form U-5 and provide it to Colorado Financial Service within two business days of receipt.

PARKING LICENSES

Firms may only register principals and representatives who intend to engage or are engaged in the securities **business**. "Parking" inactive licenses to avoid retaking exams is prohibited.

STATE REGISTRATION

Colorado Financial Service also prohibits all persons from transacting business in any state, as a broker/dealer or agent, unless the person is registered under that state's blue sky laws, as required. Colorado Financial Service will not allow an employee to act as a sales agent until such time as that individual is fully registered under all applicable state rules and regulations.

ACTIVITIES OF UNREGISTERED PERSONS

Colorado Financial Service shall observe the following guidelines relating to the activities of unregistered persons:

- Unregistered persons may not discuss general or specific investment products or services offered by the firm, pre-qualify prospective customers as to financial status and investment history and objectives, or solicit new accounts or transactions.
- Colorado Financial Service will provide unregistered persons with orientation and training that specifically addresses the limitations of such persons' activities, the regulatory consequences of exceeding these limitations, and the fact that such persons are associated persons of the member, subject to the rules of the FINRA and its disciplinary authority.
- Colorado Financial Service will conduct a reasonable investigation of such persons' backgrounds to determine that they are not statutorily disqualified from becoming associated with Colorado Financial Service.
- Unregistered persons are regarded as employees of Colorado Financial Service and should not be compensated on any basis other than salary or hourly wage.
- Colorado Financial Service will take reasonable steps to assure that the activities of unregistered persons are consistent with applicable state statutes and rules and with the rules of other SROs, if applicable.
- Colorado Financial Service will review the activities of unregistered employees to ascertain that such persons are not functioning in a manner requiring registration.

The FINRA has clarified the circumstances under which a member may employ unregistered persons ("cold callers") to contact prospective customers. Accordingly, unregistered persons of Colorado Financial Service
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may contact prospective customers for purposes of:

- Extending invitations to firm sponsored events at which any substantive presentations and account or order solicitation will be conducted by appropriately registered personnel;
- Inquiring whether the prospective customer wishes to discuss investments with a registered person; and,
- Determining whether the prospective customer wishes to receive investment literature from the firm.

RENEWAL PROCEDURES

Colorado Financial Service is required to renew annually its registration with the FINRA and all states in which it is registered, as well as to renew all registered representative registrations. This is accomplished, with few exceptions, through the FINRA Central Registration Depository ("CRD") at year-end, usually mid December.

A designated principal will review the CRD renewal rosters, and process them accordingly to renew the firm and registered representative registrations on a timely basis.

The firm will also file Amendments to Form BD as required, including notice of transfer of control, name change, material changes to Form BD, and opening and/or closing of branch offices.

Supervision

A designated principal is responsible for insuring that all required Form U-4 and U-5 filings are filed promptly and accurately. Although the registration forms may be completed by other persons, all forms should be provided to the President for his review and written approval before filing with CRD. All principals designated to supervise unregistered persons shall be responsible for ensuring that unregistered persons' activities conform to the aforementioned policies and regulatory restrictions.

CONTINUING EDUCATION

Introduction

There are two elements to the continuing education rule: 1) Regulatory Element which will encompass all registered personnel, and 2) Firm Element which would be applicable to registered producing personnel in sales, trading, and investment banking positions who conduct business with customers (retail or institutional) and their first-level immediate supervisors.

THE REGULATORY ELEMENT

All registered persons are required to take the appropriate Regulatory Element module on the second anniversary of their registration, and every three years thereafter.

Persons subject to the program will have 120 days after the anniversary date to meet the requirements of the Regulatory Element. If they do not meet this requirement, then the person will be inactive until they meet said requirement. Any person whose registration is deemed inactive will be required to cease all activities as a registered person, will be prohibited from performing any duties and functioning in any capacity which requires registration, and will be prohibited from receiving any sales-based compensation during this time period.

Persons registered in any kind of a principal capacity will take a principal-level module instead of the module taken by general securities representatives. Persons registered as principals/supervisors will

continue to take the current Regulatory Element Program until implementation of the new Supervisor Program.

Each registered person will attend all required regulatory element training at a designated testing. The Regulatory Element will be delivered through a computer-based program in a series of realistic situations and interactive instructions related to those situations

Supervision of Regulatory Element requirements

The designated Registration Principal, or designee, shall track Regulatory Element requirements by accessing WebCRD and all applicable queues. The designated Registration Principal shall also be designated the FINRA CE Contact Person. A memorandum regarding a registered person's anniversary requirement for the Regulatory Element will be disseminated to the targeted registered representative, notifying him/her of the need to complete the Computer Based Training (CBT) within the 120-day window. The Registration Principal may, at his discretion, determine additional contact with the registered person is needed or take any other action deemed appropriate to assure each person complies with the Regulatory Element requirement.

The Registration Principal shall communicate the impending inactive status of any registered representative to person's designated supervisor at least 3-days prior to the representative becoming inactive. The Registration Principal will track registered persons to ensure they sit for CBT. Should the individual fail to complete the Regulatory Element within the proscribed time period, such person's registration will be deemed inactive and that person may not act in any capacity requiring registration. As a result, such person may not be physically present at the firm, may not contact or communicate with customers, or earn or receive commission-based compensation until such time as they have complied with the Regulatory Element. The Registration Principal shall communicate the impending inactive status of any registered representative to person's designated supervisor at least 3-days prior to the representative becoming inactive. The Registered Principal will monitor inactive registrations. The designated supervisor shall be responsible for ensuring that the representative complies with Colorado Financial Service's and regulatory requirements for inactive representatives. Any registered representative who becomes inactive may, at the discretion of Colorado Financial Service, be subject to a fine or termination.

THE FIRM ELEMENT

The Firm Element will be applicable to registered producing personnel in sales, trading, and investment banking positions who conduct business with customers (retail or institutional) and their first-level immediate supervisors. The CCO shall be responsible for ensuring that the firm's needs analysis and trading plans are updated annually.

Beginning January 1, 1996, securities firms will have to provide annual training for their personnel in keeping with their job functions and products. Such training would emphasize both product knowledge and sales practices. Colorado Financial Service will have to demonstrate the reasonableness of its programs (for their size, organization, and nature of business) through internal records upon request or in the course of routine regulatory examinations. The training materials can be developed internally or an outside vendor can be utilized. This can be done individually or combined with the annual compliance meeting. Training materials and Firm Element Completion Records should be retained by the Firm. The Firm Element Training can be done individually or combined with the annual compliance meeting.

Supervision - Firm Element

The purpose of the Firm element is to better serve investors by fostering higher standards of proficiency and professionalism by ensuring that all covered persons are trained regularly and in acceptable depth on investments or services in which they deal. Keeping the firm element purpose in mind, the CCO will conduct and prepare a written “needs analysis” which is an assessment of Colorado Financial Service’s own key factors. The needs analysis forms the basis for establishing training priorities and drafting a written training plan. This will analyze the range of factors impacting Colorado Financial Service’s training needs.

Key factors of the needs analysis may include:

- Legal and regulatory developments
- New products and services
- Economic conditions
- Complaints
- Market performance
- Business plans (adding or deleting product lines)
- Arbitration/litigation
- Marketing strategies
- Organization-wide input/feedback
- Supervisory needs

After the needs analysis has been concluded, Colorado Financial Service will then write a training plan based on this needs analysis which describes what will be done.

The plan will set forth the following:

- Specific training needs and programs
- Link programs to specific individuals or groups if necessary
- Identify training medium
- Establish time frame for delivery
- Allow for appropriate feedback

After the plan has been written, the CCO must monitor all required training and ensure that the training plan is adequately implemented. In addition, documentation must be obtained and retained in Colorado Financial Service’s files evidencing the provision of all required training.

Each year the CCO will review the needs analysis to make sure it still accurately addresses Colorado Financial Service’s training needs. In addition, the CRD reports from the Regulatory Element will be analyzed for common patterns of deficiencies and areas that additional work may be needed. The results and internal feedback from the previous year’s continuing education will also be reviewed and analyzed. After this review, the training plan will be revised according to the results. All revisions and amendments will be made in writing.

Record Retention: The Firm shall retain evidence of persons who received training for a period of three years. The firm shall maintain the training material from the Firm Element training for three years.

NEW ACCOUNT REQUIREMENTS

REGULATION S-P

The Gramm-Leach-Bliley Act was enacted to protect the privacy of consumer information. Regulation S-P was adopted by the SEC in response to this Act. Pursuant to Regulation S-P, Colorado Financial Service has adopted the following standards for ensuring compliance:

1. Colorado Financial Service's policy prohibits any sharing of nonpublic information concerning Colorado Financial Service's customers with any non-affiliated third party unless the customers authorize such sharing in writing, or if such sharing is necessary to open the customer's account or to settle a transaction in the customer's account;
2. Colorado Financial Service will ensure that all non-institutional customers are provided with the written disclosure required by Regulation S-P contemporaneous with the establishment of their accounts. The firm will retain documentation sufficient to evidence provision;
3. Colorado Financial Service will ensure that all non-institutional customers are provided with the required annual written disclosure on a timely basis. The firm will retain documentation sufficient to evidence provision.

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

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

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

Public vs. Nonpublic Personal Information About Customers

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

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

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

Sharing Nonpublic Financial Information

In the normal course of business, we will share customer nonpublic financial information with service providers such as clearing firms or service bureaus. Agreements with such third parties include assurances regarding the protection of customer records and information. (Agreements in existence prior to July 1, 2001 will be amended to include the third party's privacy policy by July 1, 2002.) Information sharing with affiliated companies may also occur, and if applicable, is disclosed in the Firm's Privacy Policy.

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

The Firm does allow registered representatives who are transferring to another broker-dealer, the opportunity to take a copy of his/her client records to effectuate client account transfers under the following conditions:

1. The Firm must receive 30 days advance notice of intent to transfer.
2. Transferring registered representative must not be the subject of an active customer complaint, arbitration, regulatory action, or legal proceeding.
3. Transferring registered representative must not have any debt to our Firm.

We shall review the source of information that a new registered representative brings to the Firm to insure that the information does not violate the privacy policy of his/her prior broker-dealer. Employees of the Firm are prohibited from accessing other broker-dealers books and records.

Annual Notification

On an annual basis, Colorado Financial Service will provide all customers with notice regarding the Firm's Privacy Policy.

Protection Of Customer Information And Records

Colorado Financial Service has adopted procedures for the administrative, technical & physical safe guarding of customer information, including the following:

- It is the Firm's policy NOT to share information with nonaffiliated third parties.
- Customers will be provided the Firm's Privacy Policy at the time an account is opened.
- Computerized customer information is accessed by password protection or other established controls within the Firm's (or clearing firm's) system to ensure only authorized persons gain access. For example, sales personnel may access information regarding accounts assigned to them but not the accounts assigned to others.
- Requests for customer information from outside parties such as regulators, the IRS, and other government or civil agencies, are referred to Compliance for review and response.
- All agreements with clearing firms and other service providers include the third party's privacy policies.
- The integrity of the Firm's internal computer systems, including privacy protection, is subject to regular review.
- All hard-copy customer non-public information will be secured and stored in locked physical facilities including, but not limited to: lockable offices, file drawers and cabinets. All locks used to secure such information shall be secured daily upon the close of business.

Supervision of Privacy Policies and Procedures

The designated principal shall ensure:

- When accounts are opened, customers are provided with a copy of the firm's Privacy Policy and opt-out form which are mailed out by the Firm.
- Documentation shall evidence provision;
- Annual deliveries of privacy notices to customers are documented;
- Periodic reviews are conducted of the firm's procedures for protecting customer information for the purpose of ensuring information is only shared as permitted;
- Customer accounts who opt-out are appropriately coded, as applicable;
- agreements with third parties receiving customer information reflect the third party firm's privacy policies;

IDENTITY THEFT PREVENTION PROGRAM

Colorado Financial Service Corporation Identity Theft Prevention Program (ITPP)

under the FTC FACT Act Red Flags Rule

Firm Policy

Our firm's policy is to protect our customers and their accounts from identity theft and to comply with the FTC's Red Flags Rule. We will do this by developing and implementing this written ITTP, which is appropriate to our size and complexity, as well as the nature and scope of our activities. This ITTP addresses 1) identifying relevant identity theft Red Flags for our firm, 2) detecting those Red Flags, 3) responding appropriately to any that are detected to prevent and mitigate identity theft, and 4) updating our ITTP periodically to reflect changes in risks.

Our identity theft policies, procedures and internal controls will be reviewed and updated periodically to ensure they account for changes both in regulations and in our business.

Rule: 16 C.F.R. § 681.1(d).

ITTP Approval and Administration

The firm's CEO, Chet Hebert, approved this ITTP. Brian Helmuth, a member of senior management, is the designated identity theft officer and is responsible for the oversight, development, implementation and administration including staff training and oversight of third party service providers of ITTP services of this ITTP.

Rule: 16 C.F.R. § 681.1(e) and Appendix A, Section VI.(a).

Relationship to Other Firm Programs

We have reviewed other policies, procedures and plans required by regulations regarding the protection of our customer information, including our policies and procedures under Regulation S-P, our CIP and red flags detection under our AML Compliance Program in the formulation of this ITTP, and modified either them or this ITTP to minimize inconsistencies and duplicative efforts.

Rule: 16 C.F.R. § 681.1, Appendix A, Section I.

Identifying Relevant Red Flags

To identify relevant identity theft Red Flags, our firm assessed these risk factors: 1) the types of covered accounts it offers, 2) the methods it provides to open or access these accounts, and 3) previous experience with identity theft. Our firm also considered the sources of Red Flags, including identity theft incidents our firm has experienced, changing identity theft techniques our firm thinks likely, and applicable supervisory guidance. In addition, we considered Red Flags from the following five categories (and the 26 numbered examples under them) from Supplement A to Appendix A of the FTC's Red Flags Rule, as they fit our situation: 1) alerts, notifications or warnings from a credit reporting agency; 2) suspicious documents; 3) suspicious personal identifying information; 4) suspicious account activity; and 5) notices from other sources. We understand that some of these categories and examples may not be relevant to our firm and some may be relevant only when combined or considered with other indicators of identity theft. We also understand that the examples are not exhaustive or a mandatory checklist, but a way to help our firm think through relevant red flags in the context of our business. Based on this review of the risk factors, sources, and FTC examples of red flags, we have identified our firm's Red Flags, which are contained the first column ("Red Flag") of the attached "Red Flag Identification and Detection Grid" ("Grid").

Rule: 16 C.F.R. § 681.1(d)(2)(i) and Appendix A, Section II.

Detecting Red Flags

We have reviewed our covered accounts, how we open and maintain them, and how to detect Red Flags that may have occurred in them. Our detection of those Red Flags is based on our methods of getting information about applicants and verifying it under our CIP of our AML compliance procedures, authenticating customers who access the accounts, and monitoring transactions and change of address requests. For opening covered accounts, that can include getting identifying information about and verifying the identity of the person opening the account by using the firm's CIP. For existing covered accounts, it can include authenticating customers, monitoring transactions, and verifying the validity of changes of address. Based on this review, we have included in the second column ("Detecting the Red Flag") of the attached Grid how we will detect each of our firm's identified Red Flags.

Rule: 16 C.F.R. § 681.1(d)(2)(ii) and Appendix A, Section III.

Preventing and Mitigating Identity Theft

We have reviewed our covered accounts, how we open and allow access to them, and our previous experience with identity theft, as well as new methods of identity theft we have seen or foresee as likely. Based on this and our review of the FTC's identity theft rules and its suggested responses to mitigate identity theft, as well as other sources, we have developed our procedures below to respond to detected identity theft Red Flags.

Procedures to Prevent and Mitigate Identity Theft

When we have been notified of a Red Flag or our detection procedures show evidence of a Red Flag, we will take the steps outlined below, as appropriate to the type and seriousness of the threat:

Applicants. For Red Flags raised by someone applying for an account:

1. Review the application. We will review the applicant's information collected for our CIP under our AML Compliance Program (e.g., name, date of birth, address, and an identification number such as a Social Security Number or Taxpayer Identification Number).
2. Get government identification. If the applicant is applying in person, we will also check a current government-issued identification card, such as a driver's license or passport.
3. Seek additional verification. If the potential risk of identity theft indicated by the Red Flag is probable or large in impact, we may also verify the person's identity through non-documentary CIP methods, including:
 - a. Contacting the customer, or
 - b. Checking references with other affiliated financial institutions, or
 - c. Obtaining a financial statement.
4. Deny the application. If we find that the applicant is using an identity other than his or her own, we will deny the account.
5. Report. If we find that the applicant is using an identity other than his or her own, we will report it to appropriate local and state law enforcement; where organized or wide spread crime is suspected, the FBI or Secret Service; and if mail is involved, the US Postal Inspector. We may also, as recommended by FINRA's Customer Information Protection web page's "Firm Checklist for Compromised Accounts," report it to our FINRA coordinator; the SEC; State regulatory authorities, such as the [state securities commission](#); and our clearing firm.
6. Notification. If we determine personally identifiable information has been accessed, we will prepare any specific notice to customers or other required notice under state law. *Note: See [National Conference of State Legislators' listing of state notification requirements](#)*

Access seekers. For Red Flags raised by someone seeking to access an existing customer's account:

1. Watch. We will monitor, limit, or temporarily suspend activity in the account until the situation is resolved.
2. Check with the customer. We will contact the customer using our CIP information for them, describe what we have found and verify with them that there has been an attempt at identify theft.

3. Heightened risk. We will determine if there is a particular reason that makes it easier for an intruder to seek access, such as a customer's lost wallet, mail theft, a data security incident, or the customer's giving account information to an imposter pretending to represent the firm or to a fraudulent web site.
4. Check similar accounts. We will review similar accounts the firm has to see if there have been attempts to access them without authorization.
5. Collect incident information. For a serious threat of unauthorized account access we may, as recommended by FINRA's Customer Information Protection web page's "Firm Checklist for Compromised Accounts," collect if available:
 - a. Firm information (both introducing and clearing firms):
 - i. Firm name and CRD number
 - ii. Firm contact name and telephone number
 - b. Dates and times of activity
 - c. Securities involved (name and symbol)
 - d. Details of trades or unexecuted orders
 - e. Details of any wire transfer activity
 - f. Customer accounts affected by the activity, including name and account number, and
 - g. Whether the customer will be reimbursed and by whom.
6. Report. If we find unauthorized account access, we will report it to appropriate local and state law enforcement; where organized or wide spread crime is suspected, the FBI or Secret Service; and if mail is involved, the US Postal Inspector. We may also, as recommended by FINRA's Customer Information Protection web page's "Firm Checklist for Compromised Accounts," report it to our FINRA coordinator; the SEC; State regulatory authorities, such as the [state securities commission](#).
7. Notification. If we determine personally identifiable information has been accessed that results in a foreseeable risk for identity theft, we will prepare any specific notice to customers or other required under state law. [*see note at 6, under "Applicants" above*]
8. Review our insurance policy. Since insurance policies may require timely notice or prior consent for any settlement, we will review our insurance policy to ensure that our response to a data breach does not limit or eliminate our insurance coverage.
9. Assist the customer. We will work with our customers to minimize the impact of identity theft by taking the following actions, as applicable:
 - a. Offering to change the password, security codes or other ways to access the threatened account;
 - b. Offering to close the account;
 - c. Offering to reopen the account with a new account number; and
 - d. 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 Identity Theft Clearinghouse, FTC, 6000 Pennsylvania Avenue, NW, Washington, DC 20580.

Rule: 16 C.F.R. § 681.1(d)(iii) and Appendix A, Section IV.

Clearing Firm and Other Service Providers

Our firm uses service providers in connection with our covered accounts. We have a process to confirm that our other service providers that perform activities in connection with our covered accounts, especially other service providers that are not otherwise regulated, comply with reasonable policies and procedures designed to detect, prevent and mitigate identity theft by contractually requiring them to have policies and procedures to detect Red Flags contained in our Grid and report detected Red Flags to us or take appropriate steps of their own to prevent or mitigate the identify theft or both. Our other service provider that performs activities in connection with our covered accounts is: AdminSolutions, 304 Inverness Way South, Suite 355, Centennial, CO 80112, 303-339-9870

Rule: 16 C.F.R. § 681.1(e)(4) and Appendix A, Section VI.(c).

Internal Compliance Reporting

Our firm's staff who are responsible for developing, implementing and administering our ITPP will report at least annually to either our CEO, Board, committee, or designated member of senior management on compliance with the FTC's Red Flags Rule. The report will address the effectiveness of our ITPP in addressing the risk of identity theft in connection with covered account openings, existing accounts, service provider arrangements, significant incidents involving identity theft and management's response and recommendations for material changes to our ITPP.

Rule: 16 C.F.R. § 681.1, Appendix A, Section VI.(b).

Updates and Annual Review

Our firm will update this plan whenever we have a material change to our operations, structure, business or location or to those of our clearing firm, or when we experience either a material identity theft from a covered account, or a series of related material identity thefts from one or more covered accounts. Our firm will also follow new ways that identities can be compromised and evaluate the risk they pose for our firm. In addition, our firm will review this ITPP annually to modify it for any changes in our operations, structure, business, or location or substantive changes to our relationship with our service providers or any future clearing firm.

Rule: 16 C.F.R. § 681.1 (d)(2)(iv) and Appendix A, Sections V. and VI. (a) & (b).

Approval

I approve this ITPP as reasonably designed to enable our firm to detect, prevent and mitigate identity theft.

Rule: 16 C.F.R. § 681.1 (e)(1)&(2) and Appendix A, Section VI.(a).

Signed: **Chester J Hebert**
Title: President, CEO
Date: May 1, 2010

Red Flag Identification and Detection Grid

This grid provides FTC categories and examples of potential red flags. Please note these examples are not exhaustive nor a mandatory checklist, but a way to help our firm think through relevant red flags in the context of our business. Some examples may not be relevant to our firm, while others may be relevant when combined or considered with other indicators of identity theft.

Red Flag	Detecting the Red Flag
Category: Suspicious Documents	
1. Identification presented looks altered or forged.	Our Reps who deal with customers and their supervisors will scrutinize identification presented in person to make sure it is not altered or forged.
2. The identification presenter does not look like the identification's photograph or physical description.	Our Reps who deal with customers and their supervisors will ensure that the photograph and the physical description on the identification match the person presenting it.
3. Information on the identification differs from what the identification presenter is saying.	Our Reps who deal with customers and their supervisors will ensure that the identification and the statements of the person presenting it are consistent.
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.	Our Reps who deal with customers and their supervisors will ensure that the identification presented and other information we have on file from the account are consistent.
5. The application looks like it has been altered, forged or torn up and reassembled.	Our Reps who deal with customers and their supervisors will scrutinize each application to make sure it is not altered, forged, or torn up and reassembled.
Category: Suspicious Personal Identifying Information	
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 the Social Security Number (SSN) has not been issued or is listed on the Social Security Administration's (SSA's) Death Master File.	Our staff 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, they will check to see if the addresses on the application and the consumer report match.
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.	Our staff 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.
8. Personal identifying information presented has been used on an account our firm knows was fraudulent.	Our staff will compare the information presented with addresses and phone numbers on accounts or applications we found or were reported were fraudulent.
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, or is for a pager or answering service.	Our staff will validate the information presented when opening an account by looking up addresses on the Internet to ensure they are real and not for a mail drop or a prison, and will call the phone numbers given to ensure they are valid and not for pagers or answering services.
10. The SSN presented was used by someone else opening an account or other customers.	Our staff will compare the SSNs presented to see if they were given by others opening accounts or other customers.
11. The address or telephone number presented has been used by many other people opening accounts or other customers.	Our staff will compare address and telephone number information to see if they were used by other applicants and customers.
12. A person who omits required information on an application or other form does not	Our Reps will track when applicants or customers have not responded to requests for required information and will

provide it when told it is incomplete.	follow up with the applicants or customers to determine why they have not responded.
13. Inconsistencies exist between what is presented and what our firm has on file.	Our Reps will verify key items from the data presented with information we have on file.
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.	Our Reps 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 Account Activity	
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.	We 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.
16. 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.	We will review our accounts on at least a monthly basis and check for suspicious new patterns of activity such as nonpayment, a large increase in credit use, or a big change in spending or electronic fund transfers.
17. An account that is inactive for a long time is suddenly used again.	We will review our accounts on at least a monthly basis to see if long inactive accounts become very active.
18. Mail our firm sends to a customer is returned repeatedly as undeliverable even though the account remains active.	We will note any returned mail for an account and immediately check the account's activity.
19. We learn that a customer is not getting his or her paper account statements.	We will record on the account any report that the customer is not receiving paper statements and immediately investigate them.
20. We are notified that there are unauthorized charges or transactions to the account.	We will verify if the notification is legitimate and involves a firm account, and then investigate the report.
Category: Notice From Other Sources	
21. We are told that an account has been opened or used fraudulently by a customer, an identity theft victim, or law enforcement.	We will verify that the notification is legitimate and involves a firm account, and then investigate the report.
22. We learn 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.	We will contact the customer to learn the details of the unauthorized access to determine if other steps are warranted.

REQUIRED NEW ACCOUNT INFORMATION

A broker/dealer has the responsibility for using due diligence to learn essential facts concerning every customer. Information must be obtained about the customer's financial situation and investment objectives, approved by the principal prior to, or promptly after, the completion of the initial transaction, and reviewed periodically. It is the principal's responsibility to see that registered representatives initially obtain, and periodically update, essential facts about the customer. Information must be obtained regarding special circumstances appropriate to any unusual transactions.

Required Information for Individual/Joint Customer Accounts

The following is a minimal checklist of information which should be contained on a new account record regarding a particular customer:

- Customer's full name and residence;
- Signature of registered representative, principal, and customer (Customer must also sign margin agreement if a margin account.);
- Tax identification or social security number;
- Whether the beneficial owner of securities registered in street name objects to having its identity, address and securities positions disclosed to issuers;
- Money and securities handling instructions;
- Customer's financial status (including net worth, liquid net worth, annual income and funds available for investment). Note: In the case of a joint account, the account record must include personal information for each joint owner who is a natural person; however, financial information for the individual joint owners may be combined;
- Customer's tax status;
- Customer's investment objectives;
- Employment status including name and address of employer and occupation of customer;
- Whether customer is of legal age;
- Customer's date of birth;
- Customer's telephone number;
- Whether customer is an associated person of another member; and,
- Option questionnaire information (if option account).
- If discretionary, the dated signature of each customer or owner granting the authority and the dated signature of each natural person to whom discretionary authority was granted.

Required Information For Corporations, Partnerships, Trusts or Other Entities (which are not Institutions)

When opening corporate, partnerships, trust and other legal entity accounts, the following information is required:

- Entity's full name and address;
- Signature of registered representative, principal and customer (Customer must also sign margin page for margin accounts.);
- Tax identification or social security number;
- Money and securities handling instructions;
- Net worth of entity;
- Annual net income of entity;
- Tax status of entity;
- Investment objectives of entity;
- Whether the entity is associated with a FINRA or NYSE member;

- Names of those authorized to transact business on behalf of entity;
- Signed corporate resolution form for corporate accounts;
- Signed partnership agreement form for partnership accounts;
- Signed Trust Certification of Investment Powers form for trust accounts;
- Signed sole proprietorship agreement for sole proprietorships; and,
- Option questionnaire information (if option account).

Required Information for Institutional Accounts

Institutions are defined as banks, savings and loans, insurance companies, investment companies, investment advisers, or other entities with assets of \$50 million or more. These types of accounts should include the following information:

- Name and address of institution;
- Signature of registered representative, principal and customer (Customer must also sign margin agreement for margin accounts.);
- Tax identification or social security number;
- Whether or not the beneficial owner of securities registered in street name objects to having its identity, address and securities positions disclosed to issuers;
- Money and securities handling instructions;
- Whether customer is an associated person of another member;
- Names of those authorized to transact business on behalf of the entity;
- Signed corporate resolution form for corporate accounts; and,
- Option questionnaire information (if option account).

DVP/RVP Account Requirements

When a custodian/trustee institution opens a DVP account as a representative of one or more particular beneficiaries and all of the transactions in the account are solely for these beneficiaries, Colorado Financial Service's customer is the custodian/trustee institution and the account should be opened as follows:

Account Name: Name of custodian/trustee institution (DVP) FBO
Name(s) of beneficiary (ies) - if available

DVP/RVP Information Requirements

- Custodian/trustee's name and address;
- Tax identification number of custodian/trustee or beneficial owner;
- Names of individual(s) authorized to transact business on behalf of the custodian/trustee institution;
- Registered representative signature;
- Principal signature; and,
- Investment Advisor Certification of Trading Authorization form signed by the investment advisor (if applicable).

Required Information and Documentation for Managed Money Accounts

Registered representatives may establish relationships with outside investment advisors. All such relationships must be approved by the designated principal prior to execution of securities transactions. The designated principal(s) shall be responsible for ensuring that proper due diligence is conducted into the background and performance history of all selected investment advisors and that the new account applications are properly completed.

The following documentation should be requested and obtained from the investment advisor prior to

executing transactions in managed accounts:

- A copy of the advisor's Form ADV. This is the advisor's registration application which is filed with the SEC. The designated principal should contact the SEC (call Heather at the local office, 524-5796) to verify that the application is active and documents the results of this inquiry;
- A copy of the investment advisory agreement between the client and the advisor; and,
- Due diligence information including background, qualification, investment philosophy and performance record information.

The following information and documentation should be requested from the customer whose account is being managed by the investment advisor:

- a signed Limited Power of Attorney authorization form; and,
- all information regularly required for a customer account, including financial information and investment objectives (see preceding sections). If the client and/or advisor refuses to provide financial and investment objective information, this fact should be noted on the new account application and brought to the attention of the designated principal who shall determine whether the account may be opened.

Disbursement of Fees to Investment Advisors: Fees may only be distributed by Colorado Financial Service directly to the investment advisor from the customer's account if the proper written authorization has been provided to Colorado Financial Service by the customer.

Example Authorization Verbiage:

Please use this letter as authorization to pay upon receipt of statement or invoice, management fees to (name of investment advisor) as billed for investment services rendered. This is a continuing authorization and shall remain in effect until the investment advisory agreement is cancelled.

Signed, _____
Customer's Signature

NOTE: Principals should be aware that the firm may have ERISA liability if an affiliated entity is acting in a fiduciary capacity for a managed money account where trades are executed by Colorado Financial Service.

WRAP Fee Accounts

Colorado Financial Service is not presently allowing its registered representatives to participate in WRAP fee arrangements.

Performance Based Fees

Colorado Financial Service does not presently accept performance based fee arrangements.

Pension and Profit Sharing Accounts

With respect to employee benefit plans that are customer/clients, in addition to the account form, a current copy of the plan document should be obtained and placed in the client file. Written authorization executed by an independent fiduciary **must be obtained, and renewed annually**. The authorization must provide the

plan with the right to terminate its trading authorization at will. In addition, Colorado Financial Service must not be the trustee or administrator of the plan or the employer of any employee covered by the plan.

DISCRETIONARY ACCOUNTS

Colorado Financial Service prohibits all representatives from accepting discretionary authority on customer accounts except in accordance with the following requirements:

- Explicit written approval must be obtained from the representative's designated principal prior to employing any discretionary authority;
- No activity is permitted which is excessive in size or frequency in view of the financial resources and character of such account;
- No RR may exercise any discretionary power in a customer's account unless such customer has given prior written authorization to the RR and the account has been accepted by Colorado Financial Service, as evidenced in writing by the RR's designated principal;
-

Supervision of Discretionary Accounts/Transactions

Each principal designated to supervise representatives maintaining discretionary accounts have a heightened responsibility to ensure that the activity recommended is consistent with the customer's suitability profile. Such principals are required to review and approve promptly in writing each discretionary order entered and shall review all discretionary accounts at frequent intervals in order to detect and prevent transactions which are excessive in size or frequency in view of the financial resources and character of the account.

MARGIN ACCOUNTS

Regulation T

The Securities Exchange Act of 1934 gave the Federal Reserve Board (FRB) the responsibility and authority to regulate the extension of credit on the purchase of securities. The FRB, under its Regulation T ("Reg T"), regulates the extension of credit by brokerage firms.

(The complete text of Reg T is to be found in the FINRA Manual, Paragraph 4001 and contains the rules and regulations concerning the extension and maintenance of credit, the making and preservation of records, net capital rule and other matters pertinent to a broker/dealer involved in margin transactions.)

Margin Requirements

The FRB can change the margin requirement to either tighten (raise requirement) or loosen (lower requirement) credit. Currently (as of 1986), the FRB minimum margin requirement is 50 percent; the customer must deposit at least 50 percent (1/2) of the total purchase price, and the brokerage firm may lend the customer the remaining 50 percent.

Reg T stipulates that the deposit must be made within seven business days; an extension, however, may be granted for valid reasons and an exception is also allowed if the amount of the Reg T call is \$500 or less. The broker/dealer would, in such instance, not need to request the money from the client, but could rather add it to the amount of the loan in the account.

Opening of Margin Accounts

When opening a margin account, the client must sign a margin agreement stating all of the rules with which the customer must abide, giving the broker/dealer the right to hypothecate (pledge securities as collateral) the

customer's securities at the bank to secure the call loan. The clearing firm may hypothecate securities with a value equal to 140 percent of the customer's debit balance. However, it may only borrow an amount equal to the debit balance. All securities in excess of the 140 percent of the debit balance must be segregated. All securities in margin accounts are to be held in clearing firm's name ("street name") in order for clearing firm to be able to sell these securities should the customer not meet his or her margin call.

Disclosures to Customers

The designated principal responsible assigned to each representative establishing a margin account on behalf of a non-institutional customer shall ensure that the customer is provided, prior to or at the time of opening the account, in writing or electronically, a margin disclosure statement required by FINRA Rule 2341. This statement must be conspicuously posted to any website of Colorado Financial Service if Colorado Financial Service offers online trading services.

Restricted Accounts

The FRB requires that a customer deposit the margin requirement within seven days from the trade date. If the customer does not pay in the prescribed time and an extension is not granted, the broker/dealer must sell out the account, selling the securities to cover the margin call, and the account must be frozen. Once an account is so frozen, it must remain so for a period of 90 days. If a customer with a frozen account wishes to purchase securities in that account, he or she must deposit the full purchase price in the account before the order may be entered. If a customer wishes to sell securities in a frozen account, the firm must have possession of the securities prior to executing the transaction.

Regulation T Supervision

Clearing firm has direct responsibility for insuring compliance with Regulation T and hypothecation of customer securities. The cashiering and operations principals will be responsible for facilitating communications between clearing firm and Colorado Financial Service's customer in order to promptly process Reg T calls and maintenance calls.

CUSTOMERS ON PREMISES OF FINANCIAL INSTITUTIONS

First, because Colorado Financial Service is not a bank, the investments offered: (i) are not bank deposits and are not insured by the FDIC; (ii) are not obligations of, or guaranteed by, any affiliated bank; (iii) are not guaranteed by any federal governmental agency (excluding U.S. Government and federal agency securities); and, (iv) may fluctuate in value and may be sold for more or less than the amount invested. To the extent Colorado Financial Service conducts business on the premises of a financial institution, it will ensure that this disclosure is imprinted on all new account applications, and communicated verbally by sales personnel.

In addition to disclosing the non-insured nature of securities, all sales representatives must inform their customers that the securities products offered by Colorado Financial Service carry investment risks unlike bank products. It is absolutely essential that sales representatives convey an understanding of these investment risks to their customers. Representatives must very clearly communicate and establish that their customers understand that all securities carry a degree of risk which is almost always greater than the risk associated with traditional bank products such as CDs. All applicable, material risks must be explained including credit, market and interest rate risk. Simply making the disclosure and assuming that the customer understands the difference is unacceptable. Sales representatives must go on to explain that the customer's net asset value and principal will fluctuate to a greater or lesser extent depending on the mutual fund or other security purchased and market conditions, and is subject to a loss of principal when the investment is sold.

Sales representatives must be extremely cautious when comparing CDs and other traditional bank products

to securities. Such comparisons are strictly prohibited when the securities product being offered carries significantly higher risk to principal than the bank product. Although rate comparisons are permitted under certain circumstances, such as when comparing a CD rate to the rate on a U.S. government or municipal security, the comparison must also disclose the additional risks and disadvantages associated with the security, including but not limited to market risk, credit risk, sales charges, redemption fees and surrender charges.

Supervision of Disclosure Requirements

The designated principal(s) will periodically review sales presentations and insure that the requisite disclosures are made to all new customers. In addition, registered persons will be reminded of the importance of these disclosures during periodic compliance meetings.

CUSTOMERS REFUSING TO PROVIDE INFORMATION

As a general rule, **accounts** should not be accepted if all required information is not provided by the customer. Any exception to this rule must be approved and documented a designated principal and the CCO.

FURNISHING ACCOUNT RECORDS TO CUSTOMERS

The designated principal will ensure that, for each account with a natural person as a customer or owner, there is a record indicating that:

- The firm has furnished each customer that opens an account on or after May 2, 2003 with a copy of the account record that includes the information required by paragraph (a)(17)(i)(A) of Rule 17a-3 (or an alternate document containing that information) within 30 days of the opening of the account, and at least every thirty-six months thereafter.
- The firm has obtained account record information for each customer or owner of every account in existence before May 2, 2003, and furnished the customer with a copy of the account record that includes the information required by paragraph (a)(17)(i)(A) of Rule 17a-3 (or an alternate document containing that information) within three years of May 2, 2003.
- The firm has included with the account record or alternative document provided to each customer or owner an explanation of any terms regarding investment objectives.
- The firm has included with the account record or alternate document prominent statements that the customer or owner should mark any corrections and return the account record or alternate document to the firm, and that the customer or owner should notify the firm of any future changes to information contained in the account record.
- The firm has furnished the customer or each joint owner, and the associated person, if any, responsible for that account, with notification of any change in the account record to the name or address of the customer or owner on or before the 30th day after the date the firm received notice of the change. If it is an address change, the notifications should be sent to that customer's old address.
- For each change in an account's investment objectives, the firm has furnished each customer or owner and the associated person, if any, responsible for that account with a copy of the updated customer account record that includes the information required by paragraph (a)(17)(i)(B) of Rule 17a-3 (or an alternate document containing that information), on or before the 30th day after the date the firm received notice of the change (or, if the account was updated for some reason other than the firm receiving notice of a change, after the date the account record was updated).
- Each customer has been provided a copy of each written agreement entered into on or after May 2, 2003 pertaining to the account and, if requested by the customer, he or she was furnished with a fully executed copy of each agreement.

- Each customer has been provided with a notice containing the address and telephone number of the department of the firm to which any complaints as to the account may be directed.

Exemption from the Account Record Information and Furnishing Requirements

The account record and furnishing requirements of Rule 17a-3(a)(17) will only apply to accounts for which a firm is, or has within the past 36 months been, required to make a suitability determination under the federal securities laws or under the requirements of a self-regulatory organization of which it is a member.

ARBITRATION CLAUSE

Every firm using a pre-dispute arbitration clause in a customer agreement must highlight that clause and provide disclosures concerning the nature of arbitration and the waiver of the customer's right to litigate disputes arising under the agreement. Language in the agreement may not limit or contradict any self regulatory organization's rules. (See NTM 89-21.)

Colorado Financial Service's pre-dispute arbitration clause is contained on all new account applications.

REVIEW OF NEW ACCOUNT DOCUMENTATION

All new customer account applications must be reviewed and approved promptly following initial activity in the customer's account by a designated principal.

Review of Cash Accounts: The designated principal shall review each new cash account and is responsible for:

- Insuring that all supporting documents have been obtained (e.g. Corporate Resolutions, Adoption Agreements, Trustee Certification forms, Partnership Agreements, etc.);
- Insuring that new account applications have been completed in their entirety and that all required information has been obtained, including the customer's and the registered representative's signature;
- Verifying the customer's address is in a state where both the firm and the representative are registered;
- Documenting approval of the account by signing the new account application;
- As applicable, checking the investment purchased in association with the customer's financial status, age and investment objectives and determining whether the investment was suitable for the client;
- Insuring that any required prospectus has been sent to the client, and documented on the new account record; and,
- Insuring all account documentation is properly retained.

REVIEW OF CHANGES OF NEW ACCOUNT DOCUMENTATION

Changes to Customer Address and Investment Objectives:

No person associated with the firm is permitted to accept/process a change in customer's address or

investment objectives unless the change is submitted in documented form. All change in address requests must be signed by the customer.

The above change requests must be directed first to the principal responsible for supervision of the customer's account, and second to the principal designated for maintenance of new account documentation. The responsible principal shall follow-up on the change by sending validation letters to the customer within 30 days of the change. Such letters shall be retained in the firm's records. If any problems or concerns are detected, they must be immediately directed to the CCO.

INVESTOR EDUCATION AND PROTECTION (FINRA Rule 2267)

Except as otherwise provided in this Rule, the Firm shall once every calendar year provide in writing (which may be electronic) to each customer the following items of information:

- (1) FINRA BrokerCheck Hotline Number;
- (2) FINRA Web site address; and
- (3) A statement as to the availability to the customer of an investor brochure that includes information describing FINRA BrokerCheck.

Notwithstanding the previous requirement of this Rule,

(1) any member whose contact with customers is limited to introducing customer accounts to be held directly at an entity other than a FINRA member and thereafter does not carry customer accounts or hold customer funds and securities may furnish a customer with the information required by paragraph (a) of this Rule at or prior to the time of the customer's initial purchase, in lieu of once every calendar year; and

(2) any member that does not have customers or is a party to a carrying agreement where the carrying firm member complies with paragraph (a) of this Rule is exempt from the requirements of this Rule.

STANDARDS OF CONDUCT FOR ASSOCIATED PERSONS

PROHIBITED ACTS

Associated persons are specifically prohibited from engaging in the following actions:

- Engaging in "private securities transactions", as defined by the FINRA, without prior written approval from a designated principal. A registered representative may not effect securities transactions for any person or entity outside the scope of his or her employment with Colorado Financial Service unless such prior approval is granted. This prohibition is intended to cover any investment transaction. Any registered representative who effects private securities transactions without first receiving written permission from a principal of Colorado Financial Service may have his or her employment with Colorado Financial Service immediately terminated.

Transactions excluded from the above prohibition are: (a) Those subject to FINRA Rule 3050; (b) personal transactions in investment company and variable annuity securities; and (c) those transactions among immediate family members for which no associated person receives any selling compensation;

- Raising money individually or as an agent for any business enterprise whatsoever without the advance written consent of Colorado Financial Service;
- Guaranteeing a customer against loss in connection with any securities transaction or in any securities account of such customer, or warranting or guaranteeing the present/future value or price of any security or warranting that any company, partnership, or issuer of securities will meet its

obligations, promises, or comply with its representations to investors;

- Agreeing to repurchase a security at some future time from a client for the registered representative's account, for the account of Colorado Financial Service, or for any other account;
- Using Colorado Financial Service' name or resources for the purpose of raising money for a charitable or political organization without informing a designated principal prior to the commencement of such activity;
- Acting as personal custodian of securities, stock powers, money or other property belonging to a client;
- Arranging for or accepting authority to be granted access to a safety deposit box or other safekeeping place belonging to a customer/client;
- Borrowing money or securities from a client (unless in accordance with other policies/procedures contained herein);
- Receiving compensation for securities transactions from anyone (clients or other securities dealers) for services rendered. This includes finder's fees, purchaser representative fees, investment advisory fees, and commissions of any sort. This prohibition can be waived in writing only by a designated principal in advance of any transaction;
- Making arrangements for borrowing of monies by a client for the purpose of purchasing securities, other than through the establishment of a margin account;
- Maintaining a joint account in securities with any client, or sharing any benefit, profit or loss with any client resulting from a securities transaction;
- Entering into any business transaction or relationship jointly with a client without the specific advance written approval of a designated principal;
- Making any written or oral representations regarding securities, other than those contained in the official offering prospectus, if the issue is under registration, or in materials specifically authorized by Colorado Financial Service;
- Accepting an account from a customer on a discretionary basis;
- Making arrangements for the purchase or sale of securities for a customer/client except through Colorado Financial Service, unless specifically authorized by a designated principal;
- Advertising any product or service offered by Colorado Financial Service in any newspaper or publication without obtaining written approval of a designated principal of Colorado Financial Service;
- Offering or selling securities in any state in which the registered representative is not registered with the state securities authority;
- Recommending the purchase of securities or the continuing purchase of securities in amounts which are inconsistent with the reasonable expectation that the customer/client has the financial ability to meet such a commitment;
- Compensating any person, firm, or entity other than a registered representative of Colorado Financial Service for any services rendered in connection with the sale of a security to a customer

without express written advance approval of a registered principal;

- In many states (Connecticut, for example), it is prohibited for agents to represent more than one broker/dealer or issuer unless they are so affiliated by direct or indirect common control;
- Executing any transaction on behalf of a customer without authority to do so;
- Accepting cash from customers;
- Charging customers excessive markups. The SEC states that the anti-fraud provisions of the federal securities laws proscribe charging excessive mark-ups to retail customers without proper disclosure to the customers, and that rules of the self regulatory organizations proscribe excessive mark-ups on the sale of securities in a principal transaction, regardless of whether or not the mark-up is disclosed.
- Marking the close. It is unlawful to influence the closing price of a security through the entry of trades at or near the end of the day. Trade reports to the NASDAQ System are available on request. The designated principal will periodically review trading to make certain such closing price influence is not occurring;
- Sharing directly or indirectly in the profits or losses in any account of a customer unless: (i) the RR obtains prior written authorization from Colorado Financial Service; (ii) the RR obtains prior written authorization from the customer; and (iii) the RR shares in the profits or losses in any account of such customer only in direct proportion to the financial contributions made to such account by either the member or person associated with a member.
- Other exceptions may apply relating to RR/RIAs which also will require conformance with the exception provisions and Colorado Financial Service's prior written approval.
- Recommending speculative low-priced securities to customers without knowledge of or attempt to obtain information concerning the customers' other securities holdings, their financial situation and other necessary data.
- Recommending excessive activity in a customer's account, often referred to as "churning" or "overtrading."
- Excessive trading in mutual fund shares on a short-term basis which subject the customer to new sales charges.
- Engaging in fraudulent activity including: i.) establishment of fictitious accounts in order to execute transactions which otherwise would be prohibited, such as the purchase of hot issues, or to disguise transactions which are against firm policy; ii.) effecting transactions in discretionary accounts in excess of or without actual authority from customers; (iii) causing the execution of transactions which are unauthorized by customers or the sending of confirmations in order to cause customers to accept transactions not actually agreed upon; iv.) unauthorized use or borrowing of customers' funds or securities; v.) forgery; vi.) non-disclosure or misstatement of material facts, manipulations and various deceptions.

RESTRICTIONS INVOLVING EQUITY IPO'S

In March 2004, FINRA replaced its Free riding and Withholding Interpretation which governed "hot issues" with FINRA Rule 2790. This Rule generally prohibits Colorado Financial Service from purchasing a New Issue (see Rule for definition) for, and selling a New Issue to, any Restricted Person. Restricted Persons include:

1. Members or other broker/dealers
2. B/D personnel including any officer, director, general partner, associated person, or employee of a member or any other broker/dealer (other than a limited business broker/dealer) and any agent of a member or any other broker/dealer (other than a limited business broker/dealer) that is engaged in the investment banking or securities business; or
3. An immediate family member of a person specified in paragraph #2 above if the person specified:
 - a. materially supports, or receives material support from, the immediate family member;
 - b. is employed by or associated with the member, or an affiliate of the member, selling the new issue to the immediate family member; or
 - c. has an ability to control the allocation of the new issue.
4. Finders and Fiduciaries who with respect to the security being offered, a finder or any person acting in a fiduciary capacity to the managing underwriter, including, but not limited to, attorneys, accountants and financial consultants; and
5. An immediate family member of a person specified in paragraph #4 if the person specified materially supports, or receives material support from, the immediate family member
6. Portfolio Managers who has authority to buy or sell securities for a bank, savings and loan institution, insurance company, investment company, investment advisor, or collective investment account.
7. An immediate family member of a person specified in paragraph #6 that materially supports, or receives material support from, such person
8. Persons Owning a Broker/Dealer including:
 - a. any person listed, or required to be listed, in Schedule A of a Form BD (other than with respect to a limited business broker/dealer), except persons identified by an ownership code of less than 10%;
 - b. any person listed, or required to be listed, in Schedule B of a Form BD (other than with respect to a limited business broker/dealer), except persons whose listing on Schedule B relates to an ownership interest in a person listed on Schedule A identified by an ownership code of less than 10%;
 - c. any person listed, or required to be listed, in Schedule C of a Form BD that meets the criteria of subparagraphs above;
 - d. any person that directly or indirectly owns 10% or more of a public reporting company listed, or required to be listed, in Schedule A of a Form BD (other than a reporting company that is listed on a national securities exchange or is traded on the Nasdaq National Market, or other than with respect to a limited business broker/dealer);
 - e. any person that directly or indirectly owns 25% or more of a public reporting company listed, or required to be listed, in Schedule B of a Form BD (other than a reporting company that is listed on a national securities exchange or is traded on the Nasdaq National Market, or other than with respect to a limited business broker/dealer);
 - f. an immediate family member of a person specified in subparagraphs above unless the person owning the broker/dealer:
 - i. does not materially support, or receive material support from, the immediate family member;
 - ii. is not an owner of the member, or an affiliate of the member, selling the new issue to the immediate family member; and
 - iii. has no ability to control the allocation of the new issue.

Before selling a new issue to any account, each designated principal must ensure that Colorado Financial Service has, obtained within the twelve months prior to such sale, a representation from:

1. Beneficial Owners that the account holder(s), or a person authorized to represent the beneficial owners of the account, that the account is eligible to purchase new issues in compliance with this rule;
2. Conduits including a bank, foreign bank, broker/dealer, or investment adviser, or other conduit that

all purchases of new issues are in compliance with this rule.

Colorado Financial Service may not rely upon any representation that it believes, or has reason to believe, is inaccurate. The designated principal shall ensure that copies of all records and information relating to whether an account is eligible to purchase new issues in its files for at least three years following Colorado Financial Service's last sale of a new issue to that account.

To the extent any exemption is claimed from the Rule's prohibitions, it must be documented to the extent required by the Rule and any interpretation and to the satisfaction of the Designated Principal.

TRANSACTIONS FOR OR BY ASSOCIATED PERSONS

Determination of Adverse Interest

A member who knowingly executes a transaction for the purchase or sale of a security for the account of a person associated with another member, or for any account over which such associated person has discretionary authority, shall use reasonable diligence to determine that the execution of such transaction will not adversely affect the interests of the employer member.

Obligations of Executing Member

Where an executing member knows that a person associated with an employer member has or will have a financial interest in, or discretionary authority over, any existing or proposed account carried by the executing member, the executing member shall:

- notify the employer member in writing, prior to the execution of a transaction for such account, of the executing member's intention to open or maintain such an account;
- upon written request by the employer member, transmit duplicate copies of confirmations, statements, or other information with respect to such account; and,
- notify the person associated with the employer member of the executing member's intention to provide the notice and information required.

Obligations of Associated Persons Concerning an Account with a Member

Associated persons of Colorado Financial Service must provide **written** notice to:

- Colorado Financial Service prior to opening or placing an initial securities order (account) with another FINRA member; and to
- the executing broker/dealer notifying it of the registered representative's association with Colorado Financial Service.

However, if the account was established prior to the association of the person with Colorado Financial Service, the associated person shall notify Colorado Financial Service and the executing broker/dealer promptly after becoming so associated.

Obligations of Associated Persons Concerning an Account with an Investment Advisor, Bank or Other Financial Institution

A person associated with Colorado Financial Service who opens a securities account or places an order for

the purchase or sale of securities with a domestic or foreign investment adviser, bank or other financial institution, except a member, shall:

- notify Colorado Financial Service in writing, prior to the execution of any initial transaction, of the intention to open the account or place the order; and,
- upon written request by Colorado Financial Service, request in writing and assure that the investment adviser, bank or other financial institution provides Colorado Financial Service with duplicate copies of confirmations, statements, or other information concerning the account or offer; provided, however, that if an account subject of this subsection was established prior to a person's association with a member, the person shall comply with this subsection promptly after becoming so associated.

These provisions shall apply to an account or order in which an associated person has a financial interest or with respect to which such person has discretionary authority.

Exemption for Transactions in Investment Company Shares and Unit Investment Trusts

The provisions of this section shall not be applicable to transactions in unit investment trusts and variable contracts or redeemable securities of companies registered under the Investment Company Act of 1940, as amended, or to accounts which are limited to transactions in such securities.

Supervision of Transactions by Associated Persons

Each associated person will be advised of the requirements of FINRA Rule 3050 orally in periodic compliance meetings and in writing, as stated herein. In addition, all associated persons will complete an annual compliance questionnaire which requests information about securities accounts with which the person has a financial interest. Furthermore, all associated persons are required to complete a disclosure form attesting to whether they maintain outside securities/commodities accounts and are required to provide supplemental information on this form pertaining to any such accounts. Prior to establish any such account, associated persons are required to complete and submit this disclosure form to the CCO (see **Appendix**).

Colorado Financial Service policy requires a designated principal to request duplicate statements for all outside brokerage accounts of Colorado Financial Service registered representatives and associated persons. Statements received shall be reviewed and approved in writing by the designated principal upon receipt to ensure that the transactions do not adversely affect Colorado Financial Service's interests.

Accounts opened by Colorado Financial Service for individuals associated with other member firms or financial institutions will be so identified on the new account card. Written disclosure from these individuals as required by FINRA Rule 3050 and New York Stock Exchange Rule 407 will be directed to the designated principal who will ensure that the Rule's requirements are met and to ensure that the employing member is notified in writing of the establishment of the account. Copies of all notification letters will be retained in the customer's file. To the extent that the employing member requests duplicate statements or confirmations, the designated principal shall ensure that instructions are implemented and that documentation is retained evidencing this.

Supervision of Employee Transactions Executed by Colorado Financial Service

All Colorado Financial Service accounts established for associated persons of Colorado Financial Service must be coded to send duplicate statements to a designated Colorado Financial Service principal. It is the responsibility of the new accounts department to insure that such coding is properly done. The designated principal shall, upon receipt of duplicate statements, promptly examine each statement, evidence the review in writing, and retain all documentation. Any perceived problems should be investigated and the results of all investigations should be documented.

TRANSACTIONS AND ACCOUNTS OF FINRA/AMEX EMPLOYEES

Special requirements apply to customers (who have a financial interest or trading authority over any account) who are FINRA/AMEX employees. Upon notice of their employment with FINRA/AMEX, Colorado Financial Service shall obtain and implement instructions from such person to direct duplicate account statements to FINRA. Supervisory responsibilities shall be the same as those above pertaining to accounts established by Colorado Financial Service for associated persons of other members.

In addition, Colorado Financial Service is prohibited from:

- a. directly or indirectly loaning money or securities to such person (whether or not a customer) except in the context of disclosed routine banking and brokerage agreements, or loans that are clearly motivated by a personal or family relationship;
- b. directly or indirectly giving or permitting to be given anything of more than nominal value to such person (whether or not a customer) who has responsibility for a regulatory matter involving Colorado Financial Service. The term "regulatory matter" includes, but is not limited to, examinations, disciplinary proceedings, membership applications, listing applications, delisting proceedings, and dispute-resolution proceedings that involve the member.

OUTSIDE BUSINESS ACTIVITIES

In compliance with FINRA rules, all registered persons are required to provide Colorado Financial Service with prompt written notice of any employment or receipt of compensation from any other person or entity (other than a passive investment) prior to engaging in such activity. Registered representatives are specifically asked to disclose all outside business activities annually on the annual compliance questionnaire.

Principal review of Outside Business Activities (OBA's)

A principal of the Firm will review the Outside Business Activities disclosed to the firm and approve or disapprove the activity in writing. The OBA disclosures on the CRD Form U-4 should be kept current with changes in the Registered Reps disclosed OBA's.

Detecting Unreported Outside Business Activities

The Firm's OSJ's are responsible for detecting unreported outside business activities. Methods of detection could include but are not limited to: Review of tax returns; Review of checking, savings, and investment accounts; Comparison of lifestyle and community standing vs. stated OBA income and/or spousal income; Branch Audits and interviews with reps and staff; etc.

Special Treatment of Equity Indexed Annuities ("EIA's")

Due to the uncertainty as to whether a particular unregistered EIA may be a security, as well as the potential regulatory violations and investor protection issues that would arise from the marketing and sale of unregistered EIA's that are deemed to be securities, Colorado Financial Service has adopted special procedures with respect to these products. Colorado Financial Service requires that their associated persons to promptly notify their designated supervisor in writing when they intend to sell unregistered EIA's. Moreover, all recommendations to liquidate or surrender a registered security such as a mutual fund, variable annuity, or variable life contract must be suitable, including where such liquidations or surrender are for the purpose of funding the purchase of an unregistered EIA.

With respect to unregistered EIA's, the firm's policy requires such transactions to be handled and supervised in accordance with the private securities transactions requirements and procedures unless the EIA is determined not be a security. In this case, the associated person's participation may be treated as an outside business activity. If an associated person is selling the unregistered EIA through the firm, the firm will supervise the marketing material, suitability analysis, and other sales practices associated with the transaction in the same manner that it supervises the sale of securities. The firm will also consider whether any special training of persons selling unregistered EIA's through the firm is appropriate and will implement any necessary training.

(Activities subject to Conduct Rule 3040 of the FINRA Rules -- Private Securities Transactions -- are exempt from this requirement as this already requires written notification.)

PRIVATE SECURITIES TRANSACTIONS

A "private securities transaction", as defined by the FINRA, is any securities transaction outside the regular course or scope of an associated person's employment with a member, including, though not limited to, new offerings of securities which are not registered with the SEC. Excluded from the definition are transactions with/through FINRA member broker/dealers, investment advisors, banks or other financial institutions, transactions among "immediate family members" (as defined by the FINRA) for which the associated person receives no selling compensation, and personal transactions in investment company shares and variable annuities.

Prior to participating in any private securities transaction, associated persons must provide written notice to the firm describing in detail the proposed transaction and their proposed role. The Associated person must receive Principal Approval from the firm prior to participating in the private security transaction. (In a series of related transactions in which no selling compensation has or will be received, a single written notice can be provided.)

In transactions for which the associated person **will receive compensation**, the firm must advise the individual in writing indicating approval or disapproval. If approved, the transactions will be recorded on the books and records of the firm and the individual will be supervised. If disapproved, the individual is prohibited from participating in the transaction.

In transactions for which the associated person will **not receive compensation**, the firm will provide the individual with written acknowledgement of the person's notice, and, at Colorado Financial Service's discretion, shall require the person to adhere to specific conditions in connection with the transaction.

"Private securities transactions" and "selling compensation" are defined terms in FINRA Conduct Rule 3040 and all associated persons are required to be fully familiar with their scope and meanings. Note that this rule applies to individuals forming or selling limited partnership interests for which they serve as general partners. Examples of records which the firm should maintain may include: (1) individual and security; (2) amount of compensation (and from whom); (3) investor's name, amount of investment, and date; (4) issuer, syndicator, or broker/dealer; (5) how the representative's participation was supervised.

All Colorado Financial Service registered representatives are advised of the prohibitions concerning Private Securities Transactions and are specifically asked if they have participated in any such transactions annually when completing the annual compliance questionnaire.

RR's AFFILIATED WITH INDEPENDENT RIA's

Representatives or their business entities may be independently registered as investment advisers, however, under FINRA regulations (See NTM 94-44 and 96-33); the investment adviser activities may be subject to the supervision of Colorado Financial Service. Therefore, independent registration as an investment adviser requires the approval of the Firm prior to engaging in investment adviser activities. Requests for approval should be submitted to the CCO for review and approval and include the following:

- the name under which the investment adviser activity will be conducted;
- a copy of Form ADV for the adviser
- any other information and documentation deemed necessary

Based upon this information as well as ensuing discussion, the activity will be designated by the CCO as
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either (a) an outside business activity or (b) private securities transactions. The CCO will retain a copy of the request and the approval or disapproval.

If approved as an outside business activity under Conduct Rule 3030, the RR is required to provide copies of the following information to the designated supervisor on an ongoing basis:

- updates to the ADV
- any other information and documentation deemed necessary

If approved as a private securities transaction under Conduct Rule 3040, the IC will be required to provide copies of the following information:

- updates to the ADV
- all investment adviser agreements and account applications with adviser customers, within 10 days of receipt by the adviser
- correspondence regarding investment adviser activities
- reports to adviser customers
- proposed allocation
- all confirmations and account statements
- any other information and documentation deemed necessary

As required by Conduct Rule 3040, Colorado Financial Service and the designated supervisor will maintain evidence that it has reviewed and approved all information detailed above.

GIFTS AND GRATUITIES

No member or person associated with the firm shall, directly or indirectly, give or permit to be given anything of value, including gratuities, in excess of \$100 per individual per year to any person, principal, proprietor, employee, agent, or representative of another person where such payment or gratuity is in relation to the business of the broker/dealer. An exception to this rule pertains to persons who have entered into, prior to the time of employment or before the services are rendered, a written agreement with the firm, specifying the nature of the proposed employment, the amount of the proposed compensation, and the written consent of such person's employer or principal.

All associated persons seeking reimbursement from the firm for any business –related expense (including eligible gifts and gratuities) are required to complete the firm's expense reimbursement form. All such forms are to be submitted to the associated person's designated supervisor who shall review for completeness and any indications of impropriety with respect to gifts and gratuities and any other matters. All reimbursement requests must be accompanied by receipts documenting the nature and amount of claimed expenses. The supervisor shall document all approvals on the reimbursement form and forward the reimbursement request to appropriate accounting staff for disbursement processing. To the extent company credit cards are used as payment methods, accounting personnel shall verify expenses by comparing receipts with credit card statements (upon issuance). If any significant problems are detected through the foregoing review processes, the CCO is required to be notified.

Referral Fees

Colorado Financial Service and its associated persons are prohibited from paying referral fees directly to non-registered persons when such fees are related, directly or indirectly, to transaction-based compensation.

BORROWING FROM OR LENDING TO CUSTOMERS

Colorado Financial Service prohibits associated persons from borrowing money from or lending money to any customer unless the lending or borrowing arrangement meets one of the following conditions: (A) the

customer is a member of such person's immediate family; (B) the customer is a financial institution regularly engaged in the business of providing credit, financing, or loans, or other entity or person that regularly arranges or extends credit in the ordinary course of business; (C) the customer and the registered person are both registered persons of the same member firm; (D) the lending arrangement is based on a personal relationship with the customer, such that the loan would not have been solicited, offered, or given had the customer and the associated person not maintained a relationship outside of the broker/customer relationship; or (E) the lending arrangement is based on a business relationship outside of the broker-customer relationship.

(1) With respect to the situations described in (C), (D), and (E) above, all associated persons must submit the borrowing/lending arrangement in writing to Colorado Financial Service and the arrangement is required to be approved in writing before any borrowing/lending arrangement can begin.

(2) With respect to the lending or borrowing arrangements described in (A) above, RR's are not required to notify the member or receive member approval either prior to or subsequent to entering into such lending or borrowing arrangements.

(3) With respect to the lending or borrowing arrangements described in (B) above, RR's are not required to notify Colorado Financial Service either prior to or subsequent to entering into such lending or borrowing arrangements, provided that, the loan has been made on commercial terms that the customer generally makes available to members of the general public similarly situated as to need, purpose and creditworthiness.

INTERFERENCE WITH ACCOUNT TRANSFERS

Colorado Financial Service prohibits any associated person from interfering with a customer's request to transfer his or her account in connection with the change in employment of the customer's registered representative, provided that the account is not subject to any lien for monies owed by the customer or other bona fide claim.

DEALING WITH NON-MEMBERS

Colorado Financial Service prohibits all associated persons from dealing with any non-member broker or dealer except at the same prices, for the same commissions or fees, and on the same terms and conditions as are by such member accorded to the general public. No associated person shall:

- in any transaction with any non-member broker or dealer, allow or grant to such non-member broker or dealer any selling concession, discount or other allowance allowed by Colorado Financial Service to a member of a registered securities association and not allowed to a member of the general public;
- join with any non-member broker or dealer in any syndicate or group contemplating the distribution to the public of any issue of securities or any part thereof; or
- sell any security to or buy any security from any non-member broker or dealer except at the same price at which at the time of such transaction Colorado Financial Service would buy or sell such security, as the case may be, from or to a person who is a member of the general public not engaged in the investment banking or securities business.

CASH AND NON-CASH COMPENSATION

Colorado Financial Service has adopted the following policies and procedures with respect to receipt and payment of compensation associated with various types of securities transactions and activities.

In connection with the public offering of any security and the sale/distribution of investment company securities, Colorado Financial Service and its associated persons:

- shall maintain records of all compensation received by it or its associated persons from offerors. The records shall include the names of the offerors, the names of the associated persons, the amount of cash, the nature and, if known, the value of non-cash compensation received;

- shall not accept any cash compensation from an offeror unless such compensation is described in a current prospectus of the investment company. When special cash compensation arrangements are made available by an offeror to Colorado Financial Service, which are not made available on the same terms to all members who distribute the investment company securities of the offeror, Colorado Financial Service shall not enter into such arrangements unless Colorado Financial Service's name and the details of the arrangements are disclosed in the prospectus.
- shall not directly or indirectly accept or make payments or offers of payments of any non-cash compensation, except as follows:
 - o Gifts that do not exceed an annual amount per person fixed periodically by the Association and are not preconditioned on achievement of a sales target;
 - o An occasional meal, a ticket to a sporting event or the theater, or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target;
 - o Payment or reimbursement by offerors in connection with meetings held by an offeror or by a member for the purpose of training or education of associated persons of a member, provided that:
 - records are prepared and retained which include the names of the offerors, the names of the associated persons, the amount of cash, the nature and, if known, the value of non-cash compensation received;
 - associated persons obtain the member's prior approval to attend the meeting and attendance by a member's associated persons is not preconditioned by the member on the achievement of a sales target or any other incentives pursuant to a permitted non-cash compensation arrangement;
 - the location is appropriate to the purpose of the meeting, which shall mean an office of the offeror or the member, or a facility located in the vicinity of such office, or a regional location with respect to regional meetings;
 - the payment or reimbursement is not applied to the expenses of guests of the associated person; and
 - the payment or reimbursement by the offeror is not preconditioned by the offeror on the achievement of a sales target or any other permitted non-cash compensation arrangement.
- shall not accept any compensation from an offeror which is in the form of securities of any kind unless the receipt of such is approved in writing by Colorado Financial Service and conforms with all regulatory standards including FINRA Rule 2710;

Under no circumstances may associated persons accept any compensation from anyone other than Colorado Financial Service unless such arrangement is approved in advance in writing by Colorado Financial Service and operates in conformance with applicable rules.

FINANCIAL AND OPERATIONAL POLICIES AND PROCEDURES

CUSTOMER PROTECTION RULE

The Firm will operate pursuant to the following exemption(s):

(k)(1) Exemption:

This exemption requires:

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

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

(iii) Colorado Financial Service will promptly transmits all funds and delivers all securities received in connection with his activities as a broker or dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers.

Clearing Agreement

Currently, Colorado Financial Service does not maintain any clearing relationship. Should this change in the future, the designated FINOP is responsible for reviewing all clearing agreements for conformance with FINRA Rule 3230, and that all other requirements of this Rule are satisfied including the customer notification provisions.

Changing Exemptive Status

The FINRA requires an existing member to obtain prior written approval from the FINRA before altering its method of operation by changing its exempt status under the SEC Customer Protection Rule (15c3-3).

Under the rule, any member planning to change its exemptive status in order to begin carrying customer accounts, maintaining customers' free credit balances, holding customer securities, or operating in some other manner so as to no longer qualify it for continued exemptive status under the Rule, must obtain prior written approval of the relevant FINRA district office before effecting such change.

NET CAPITAL - SEC RULE 15c3-1

The Financial and Operational Principal is responsible for the following:

- Insuring that net capital is being computed in accordance with the provisions of the rule and that the firm is and has been in capital compliance during all hours in which business was being conducted;
- Establishing, maintaining and verifying that all accruals are being posted properly and in compliance with Generally Accepted Accounting Principles. **Cash Basis Accounting is not allowed** for financial reporting by the SEC, although it is allowed for tax reporting by the IRS;
- Analyzing for allowable and non-allowable assets periodically, and at a minimum, at least every two weeks.

Receivables from other broker/dealers for other than regular securities transactions are generally non allowable for capital (this includes receivables from tax shelter programs among others);

- Conducting reviews of secured demand notes carried by Colorado Financial Service to make certain collateral value, after appropriate "haircuts" are applied, equals or exceeds face value of notes;
- If Colorado Financial Service is carrying inventory, reviewing frequently the market value of the positions with an eye towards possible concentrated positions (being conservative in valuations and making sure of "haircut" deductions);
- Making certain adequate capital is being carried prior to the underwriting of a "firm commitment" offering by applying a "haircut" on the underwriting commitment;
- Establishing procedures which will allow all reconciliations and analyses to be completed in time for the prompt preparation and filing of monthly Focus I Report within the ten business day filing requirement of the designated examining authority;

- Reviewing all bank reconciliation on a monthly basis and ensuring that all unreconciled material items are properly accounted for;
- Making certain that all books and records are properly prepared and posted on a current basis;
- Reconciling bank balances on a timely basis and posting all necessary adjustments to appropriate records;
- Verifying the accuracy of the month-end trial balance and that it agrees with the corresponding balances in the general ledger;
- Insuring that relevant sub-ledger balances agree with general ledger balances; and,
- Insuring the firm complies with all financial reporting requirements, which include:
 - Preparing, reviewing and filing FOCUS Reports on a timely basis in accordance with SEC Rule 17a-5;
 - Verifying that financial statements of the firm are supplied to customers (if self clearing), the SEC, and the designated examining authority in compliance with paragraph (m) of Rule 17a-5 ("Periodic Statements of Financial Condition"),
 - Ascertaining that the reports required to be filed under SEC Rule 17a-11 (e.g., if net capital is less than 120 percent minimum required, or AI/NC Ratio is less than 15:1) have been filed on a timely basis and that the cause for filing such has been corrected, and
 - Filing the required annually audited statements with the appropriate regulatory bodies within 60 calendar days of year end.

Net Capital Requirement

Colorado Financial Service must maintain minimum net capital of \$5,000 in accordance with SEC Rule 15c3-1. The firm must maintain at least 120 percent of the minimum requirements at all times to avoid being subject to the early warning requirements of SEC Rule 17a-11.

In addition, the firm's net capital may not fall below $6 \frac{2}{3}$ percent of aggregate indebtedness. Due to the variables setting minimum net capital requirements, it is incumbent upon the firm's financial principal to be aware of the firm's minimum requirement at all times and to advise the President and CCO if the firm's minimum net capital requirement changes for any reason.

The net capital rules require continuous compliance. Computation will be made by or under the direction of the principal as frequently as necessary to determine compliance but **in no event less than once per month**. [Securities Exchange Act Rule 17a 3(a) (11)]. All monthly computations of net capital will be retained for a three-year period. (Securities Exchange Act Rule 17a-4(b)(5).) The audited financial statements on Form X 17A-5 (known as the "Focus Report") contain a net capital computation under Securities Exchange Act Rule 15c3-1. This format can be used for the basic net capital computation.

Change of Independent Accountant

If the firm elects to change its independent accountant, it shall notify the SEC and FINRA by filing a new designation of accountant agreement, along with required disclosures and notations, no later than 15 days after the change.

Fidelity Bond Coverage

The firm will maintain a blanket Fidelity Bond and state Surety Bonds as required. It will be the responsibility of the financial principal to assure such coverage is adequate and will review the bond's features and coverage at least annually.

Events Requiring Application Filings with FINRA

In accordance with FINRA Rule 1017, all member firms are required to make application with FINRA at least 30 days prior to: (a) any merger of the member; (b) an acquisition by the member; (c) an acquisition of the member or substantially all of its assets; and (d) any change in the equity ownership or partnership capital of the member which results in one person or entity owning 25 percent or more of such equity ownership or partnership capital. The firm is also required to file an application prior to engaging in any material change in business.

The CCO is responsible for ensuring that any required application is filed on a timely basis.

SEC Rule 15c3-1 Regarding Withdrawals of Net Capital

FINRA Notice to Members 91-20 outlines amendments to Rule 15c3-1 (net capital rule) as it applies to all broker/dealer capital withdrawals of over \$500,000. (See FINRA Notice to Members #91-20.)

Capital withdrawals include withdrawals, advances and loans (i.e., any transaction between a broker/dealer and an affiliate or insider that results in a decrease of net capital would be considered a loan or an advance).

As formal net capital computations are not often prepared daily, the SEC has allowed that excess net capital and haircuts may be determined based upon the most recently filed FOCUS report, provided that the broker/dealer reasonably assures itself that the only changes, from the date of such report, have served to either reduce haircuts or increase net capital.

FINRA Notice 91-20 should be consulted carefully to ensure compliance with SEC Rule 15c3-1 in this particular aspect. (Questions should be addressed to the FINRA Financial Responsibility Division at 202/728-8472).

BOOKS AND RECORDS

The following procedures specifically detail how Colorado Financial Service shall comply with **financial and operational requirements**, which are set forth by the United States Securities and Exchange Commission.

Books and Records - General Preparation

The principal(s) shall make certain the following books and records, **when and if necessary**, are properly prepared, maintained (SEC Rule 17a-3) and preserved (SEC Rule 17a-4).

- **BLOTTERS** (or other records of original entry) containing an itemized daily record of all purchases and sales of securities, cash received and disbursed, and securities received and disbursed in which Colorado Financial Service is the selling broker. The blotter must show the account for which each transaction was effected, the name and amount of securities, the unit and aggregate purchase or sale price (if any), the trade date, and the name or other designation of the person from whom purchased or received or to whom sold or delivered.

**Checks Received and Forwarded Blotter -
Securities Received and Forwarded Blotter -**

- **LEDGERS** (or other records) reflecting all asset, liability, income, expense and capital accounts.
- **LEDGER ACCOUNTS** (or other records) itemizing separately as to each account of every customer, all purchases, sales, receipts and deliveries of securities for the account and all debits and credits to the account. This requirement is only applicable to accounts for transactions in securities which are not cleared through NYSE or ASE member firms (i.e., private placements).
- **LEDGERS** (or other records) reflecting the following:
 - dividends and interest received (if any);
 - securities borrowed and securities loaned (if any);
 - monies borrowed and monies loaned (if any) together with a record of the collateral therefore and any substitutions in such collateral;
 - securities failed to receive and failed to deliver (if any);
 - securities in transfer (if any); and,
 - all long and short stock record differences arising from the examination, count, verification and comparison pursuant to Rule 17a-13 and Rule 17a-5 hereunder (by date of examination, count, verification, and comparison showing for each security the number of shares of long or short count differences).
- **SECURITIES POSITION LEDGERS.** A securities record or ledger reflecting separately for each security as of the settlement dates of all long or short positions, if any (including securities in safekeeping, if any) carried by such member or broker/dealer for its account or for the account of its customers or partners and showing the location of all long securities and the offsetting position to all short securities, including long security count differences and short security count differences classified by the date of physical count and verification in which they were discovered, and in all cases the name or designation of the account in which each position is carried.
- **ORDER TICKETS.** A memorandum of each brokerage order (order ticket) and of any other instruction, given or received for the purchase or sale of securities, whether executed or unexecuted. **This memorandum, including handwritten order tickets,** shall include the following information:
 - Name of security;
 - Terms and conditions;
 - Customer name or account number;
 - Number of shares purchased/sold;
 - Time of order entry;
 - If sale, whether long or short;
 - If sale, whether in customer possession and good deliverable form or long in account;
 - Principal approval;
 - Date prospectus sent/provided;
 - Whether the order was solicited or unsolicited; and,
 - If option trade, whether to open or close and ROP signature.
- **PURCHASE & SALES LEDGERS.** A memorandum of each purchase and sale for the account of such member, broker, or dealer showing the price and, to the extent feasible, the time of execution, and, in addition, where such purchase or sale is with a customer other than a broker or dealer, a memorandum of each order received, showing the time of receipt, the terms and conditions of the order, and the account in which it was entered.
- **CONFIRMATIONS.** Copies of confirmations of all purchases and sales of securities and copies of notices of all other debits or credits for securities, cash and other items for the account of customers of Colorado Financial Service. Confirmations will be printed and delivered to customers immediately upon execution of an order or placement of an open order. Confirmations will be delivered by mail to the

address of record on the account from the main office. A copy of the confirmation should be forwarded to the cage for settlement, with a copy retained by trading.

- **CASH AND MARGIN ACCOUNTS.** A record in respect to each cash and margin account with such member or broker/dealer indicating (i) the name and address of the beneficial owner of such account; (ii) whether or not the beneficial owner of securities registered in the name of such member or broker/dealer, or a registered clearing agency or its nominee, objects to disclosure of his or her identity, address and securities positions to issuers; and (iii) in the case of a margin account, the signature of such owner, provided that, in the case of a joint account or an account of a corporation, such records are required only in respect to the person or persons authorized to transact business for such account.
- **OPTIONS RECORDS.** A record of all puts and calls, spreads, straddles, and other options in which such member or broker/dealer has any direct or indirect interest or which such member or broker/dealer has granted or guaranteed, containing, at least, an identification of the security and the numbers of units involved.
- **FINANCIALS.** A record of the proof of money balances of all ledger accounts in the form of trial balances, and a record of the computation of aggregate indebtedness and net capital, as of the trial balance date. All checkbooks, bank statements, canceled checks and cash reconciliations; All bills receivable or payable (or copies thereof, paid or unpaid) relating to Colorado Financial Service's business;
- **EMPLOYEE RECORDS.** A questionnaire or application for employment executed by each "associated person" (as hereinafter defined) of such member or broker/dealer which questionnaire or application shall be approved in writing by an authorized representative of such member or broker/dealer and shall contain at least the following information with respect to such person:
 - name, address, social security number, and employment starting date or other association with the member or broker/dealer;
 - date of birth;
 - a complete statement of all consecutive business connections for at least the preceding ten years;
 - a record of any denial of membership or registration, and of any disciplinary action taken, or sanction imposed, upon the individual by any federal or state agency, or by any national securities exchange or national securities association including any finding that he or she was a cause of any disciplinary action or had violated any law;
 - a record of any denial, suspension, expulsion or revocation of membership or registration of any member or broker/dealer with which he or she was associated in any capacity when such action was taken;
 - a record of any permanent or temporary injunction entered against him or her or any member or broker/dealer with which he or she was associated in any capacity at the time such injunction was entered;
 - a record of any arrest or indictment for any felony or misdemeanor pertaining to securities, commodities, banking, insurance, real estate (including but not limited to, acting as or being associated with a broker/dealer, investment company, investment adviser, futures sponsor, bank, or savings and loans association), fraud, false statements or omissions, wrongful taking of property or bribery, forgery, counterfeiting or extortion, and the disposition of the foregoing; and,
 - a record of any other name or names by which he or she has been known or has used, provided, however, that if the associated person has been registered as a registered representative of broker/dealer and such employment has been approved by the FINRA or any of the stock exchanges, then retention of a correct, complete copy of the application for registration and its approval shall be deemed to satisfy the requirement of this subparagraph. (Use of Form U-4 simplifies this procedure, along with fingerprints.)

For purposes of this section the term "associated person" shall mean a principal, officer, director, salesman,

trader, manager, or any employee handling funds or securities or soliciting transactions or accounts for the member or broker/dealer.

- **ASSOCIATED PERSON LOCATION AND IDENTIFICATION NUMBER RECORDS** containing a list of every office where each associated person regularly conducts business; their CRD number, if any; and every internal identification number or code assigned to that person by the broker/dealer. *Record Retention:* Three years after the associated person has terminated employment and all other connections with the firm.
- **ASSOCIATED PERSON COMPENSATION RECORDS** for each associated person containing: each purchase and sale of a security attributable to that associated person for compensation purposes; the amount of compensation attributable to each purchase or sale, if monetary, and a description of the compensation, if non-monetary; and all agreements pertaining to the relationship between the broker/dealer and each associated person. *Record Retention:* Three years, the first two years in an easily accessible place. Note: New Rule 17a-3(a) (19) (i) requires each broker/dealer to create a record for each associated person listing each purchase and sale of a security attributable, for compensation purposes, to that associated person. The record has to include the amount of compensation if monetary and a description of the compensation if non-monetary.
- **ASSOCIATED PERSON AGREEMENTS** pertaining to the relationship between each associated person and the broker/dealer, including a summary of each associated person's compensation arrangements such as commission and concession schedules. Some associated persons do not directly participate in securities transactions with customers. Generally, if an associated person is not directly involved with or compensated based on securities transactions with customers, the broker/dealer would not be required to create the record required pursuant to Rule 17a-3(a)(19)(ii).
- **ASSOCIATED PERSON COMPLAINT RECORDS** that, for each associated person, contains a record of each written customer complaint received by the firm concerning that associated person which includes: the complainant's name, address, and account number; the date the complaint was received; the name of any other associated person identified in the complaint; a description of the nature of the complaint; and the disposition of the complaint. Note: Instead of the record, the firm may maintain a copy of each original complaint in a separate file by the associated person named in the complaint along with a record of the disposition of the complaint. *Record Retention:* Three years, the first two years in an easily accessible place.
- **COMMUNICATIONS SUPERVISION RECORDS** (which need not be separate from the advertisements, sales literature, or communications) documenting that the firm has complied with, or adopted policies and procedures reasonably designed to establish compliance with, applicable federal and SRO requirements, of which the firm is a member, requiring principal approval of advertisements, sales literature or other communications with the public by the firm or its associated persons. *Record Retention:* Three years, the first two years in an easily accessible place.
- **CONTACT PERSON RECORDS** for each office listing all individuals by name or title at that office who, without delay, can explain the types of records maintained at that office and the information therein. *Record Retention:* Six years, the first two years in an easily accessible place.
- **RESPONSIBLE PRINCIPAL RECORDS** listing each principal responsible for establishing policies and procedures reasonably designed to ensure compliance with any applicable federal requirements or rules of an SRO of which the firm is a member, requiring principal acceptance or approval of records. *Record Retention:* Six years, the first two years in an easily accessible place.
- **OFFICE RECORDS** as to each office providing for the preparation of certain books and records that reflect the activities of the office. (This includes: blotters, order tickets, customer account records, records with respect to associated persons, customer complaints, records evidencing compliance with SRO rules with regard to communications with the public, records of persons who can explain the information in the broker/dealer's records, and records of each principal responsible for establishing recordkeeping compliance procedures.) Note: The term "office" means any location where one or more associated persons regularly conduct the business of handling funds or securities or effecting any transactions in, or inducing or attempting to induce the purchase or sale of, any security. *Record Retention:* For the most recent two year period.
- **COMMUNICATIONS WITH THE PUBLIC.** All originals of all communications received and

copies of all communications sent (and any approvals thereof) by the firm (including inter-office memoranda and communications) relating to the firm's business as such, including all communications which are subject to SRO rules of which the firm is a member regarding communications with the public. *Record Retention:* The firm's policy requires such records to be retained for six years, the first two years in an easily accessible place.

- **ORGANIZATIONAL DOCUMENTS** including all partnership articles or, in the case of a corporation, all articles of incorporation or charter, minute books and stock certificate books (or, in the case of any other form of legal entity, all records such as articles of organization or formation, and minute books used for a purpose similar to those records required for corporations or partnerships), all Forms BD and BDW, including all amendments thereto, and all licenses or other documentation showing registrations with any securities regulatory authority. *Record Retention:* Life of the enterprise and of any successor enterprise.
- **SPECIAL REPORTS** including each report which a securities regulatory authority has requested or required a broker/dealer to make and furnish to it pursuant to an order or settlement, and each securities regulatory authority examination report. *Record Retention:* Three years after the date of the report. Note: The SEC stated in its Interpretive release that Rule 17a-4(e) (6) does not require a broker/dealer to preserve documents or other materials delivered to the Commission in response to a subpoena. However, if those documents are otherwise required to be created and maintained pursuant to Rules 17a-3 and 17a-4, the broker/dealer must preserve them in compliance with those provisions. In addition, the SEC notes that a broker/dealer, under other applicable laws or rules, may have an obligation to preserve such reports, documents or other materials.
- **COMPLIANCE, SUPERVISORY & PROCEDURES MANUALS** including any updates, modifications, and revisions to the manual, describing the policies and practices of the broker/dealer with respect to compliance with applicable laws and rules, and supervision of the activities of associated persons. *Record Retention:* Three years after the termination of use of manual.
- **EXCEPTION REPORTS** including all reports produced to review for unusual activity in customer accounts.

In addition, to the extent not addressed above, the following records shall be kept and preserved for a period of not less than three years, the first two in an easily accessible place:

- Originals of all mail and other communications received, and copies of all mail and other communications sent (including inter-office memoranda and communications) relating to its business;
- All guarantees of accounts and all powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account, and copies of resolutions empowering an agent to act on behalf of a corporation (if any);
- All written agreements (or copies thereof) entered into by the member or broker/dealer relating to its business, including agreements with respect to any account; and,
- Records which contain the information in support of amounts included in the report prepared as of the audit date on Form X-17A-5 (Focus Report), Part II or Part IIA, and in the annual financial statements.

Pursuant to 240.15c-3(d)(4), Colorado Financial Service is required to preserve for six years after the closing of any customer account, any records relating to the terms and conditions of the opening, maintenance and closing of the account.

Records of any "associated person(s)" who have terminated their employment must be preserved for three years thereafter. Also, any and all records as described in Rule 240.17a-3 (a) (12), (a) (13), (a) (15) and 240.17f-2 (d) must likewise be preserved.

CASHIERING POLICIES AND PROCEDURES

Cashiering Functions

The Cashiering Department is responsible for fulfilling the following functions:

- Receipting and promptly forwarding all customer funds;
- monitoring of all transmittals of customers' funds.

Unacceptable Payments

In general, a customer should give Colorado Financial Service his/her own check in payment of security purchases in their account. Colorado Financial Service will not accept third party checks without prior approval of the assigned supervisory principal and endorsement by the party to whom the check is payable.

In addition, the firm's associated persons are prohibited from assisting customers seeking the following money movements:

- fund transfers from customers to third party accounts (i.e., a transmittal that would result in a change of beneficial ownership);
- fund transfers from customer accounts to outside entities which are not related to a securities transaction effected by Colorado Financial Service (e.g., transmittals to banks, investment companies other than those with whom Colorado Financial Service has selling agreements, etc.);
- fund transfers from customer accounts to locations other than a customer's primary residence (e.g., post office box, "in care of" accounts, alternate address, etc.);

In the event customers seek such assistance, associated persons must advise customers that they should accomplish the transfer directly through the necessary parties without the involvement of Colorado Financial Service. Any exceptions to the above must be approved in advance by the CCO.

The following types of payment are generally unacceptable:

- A corporation check signed by the customer as an officer of the corporation in payment of personal securities purchased;
- A check in payment for personal securities purchases drawn on an account with respect to which such customer is a trustee, executor or other fiduciary, when the customer has signed the check;
- A check for personal securities purchases drawn by a lawyer on an account which bears the lawyer's name and legend such as "client's funds," "trustee account," or similar denotation indicating that the lawyer is holding such funds in a fiduciary capacity; and,
- A check for personal securities purchases drawn on his/her partnership account by a lawyer, accountant or other professional person and signed by him/her as partner or by another partner unless the customer and the signing partner are the only members of the partnership.
- Checks forwarded to Colorado Financial Service for mutual fund and variable contracts in payment for transactions effected directly by a customer with the fund/insurance company. The initial instance of

this may be processed by the firm in accordance with its cashiering policies and procedures. However, a letter should be sent to the customer advising that any similar payments made in the future will be returned to the customer.

Supervision of Cashiering Functions

Unless assigned to a Cashiering Manager, the above functions are under the direct supervision of the Financial and Operational Principal, or designee, who shall perform the following:

- Reviewing the work of all cashiering personnel to the extent necessary to ensure that the firm's cashiering operations complete transactions expeditiously and properly direct the flow of customers' funds and securities;
- Verifying that all customer funds received are promptly forwarded, and booked to the firm's blotter reporting their receipt and transmittal;
- Reporting all errors which may have a material effect on the firm's financial condition to the President.

The firm will periodically, and no less than annually, test the above procedures involving the transmittal of customers' funds.

OPERATIONS POLICIES AND PROCEDURES

Charges and Fees

The FINRA, without providing explicit restrictions on its members, has adopted a rule which states that charges and fees must be reasonable and not unfairly discriminatory between customers. In order to ensure compliance with this and other FINRA and state regulations, Colorado Financial Service will conduct its fee collection activities as follows:

- Customers will be provided with a fee schedule upon opening an account detailing all fees associated with the establishment and maintenance of their account. The fees charged must be fair and reasonable in relation to the service(s) rendered;
- The operations department will collect fees from customers pursuant to established, written procedures detailing the timing and steps necessary to collect the fees in an orderly and non-discriminatory fashion;
- Colorado Financial Service must notify customers in writing of any **fee changes** within 30 days of assessing the fees. Such notice may be placed on the front of the account statement or other document containing the notice (See NSCP Hotline, April 28, 1993.); and,
- Colorado Financial Service may liquidate assets and/or disburse funds from customers' accounts without prior authorization from customers only under the following conditions:
 - Customers are notified of their indebtedness, and demand is made for payment at least 30 days prior to initiating the liquidations/disbursements, and
 - Extra charges/commissions may not be charged to cover the firm's costs when liquidating customers' assets unless disclosure of the extra charges/commissions is made at least 30 days prior to the liquidation and the charges/commissions are not excessive.

Securities Information Center

Colorado Financial Service will register with SIC as a Direct or Indirect Inquirer, as required, and will conform to its activities to SEC Rule 17f-1. As an Indirect Inquirer, Colorado Financial Service will:

- **Reports of Stolen Securities.** Colorado Financial Service must report the securities stolen to Direct Inquirer within one business day of discovery. If the securities are later recovered, Colorado Financial Service must report the recovery within one business day;
- **Reports of Missing or Lost Securities.** Colorado Financial Service must report the securities missing or lost to Direct Inquirer within one business day following elapse of two business days since discovering that the securities were missing or lost. If the certificates are later found or recovered, Colorado Financial Service must report the recovery within one business day;
- **Reports of Counterfeit Securities.** Colorado Financial Service must report counterfeit securities to Direct Inquirer within one business day of making such discovery;
- **Supervisory Procedures:** The Financial and Operational Principal, or designee, shall ensure that written documentation is prepared and maintained which evidences the relevant facts and circumstances concerning how and when Colorado Financial Service was made aware of the securities status as lost, stolen or counterfeit. These facts include, but are not limited to, the following:
 - Date reported as lost, stolen or counterfeit;
 - Name of person making the report and reasons for concluding that the securities are lost, stolen or counterfeit;
 - Previously known status of the security if reported lost or missing (e.g., shipped by clearing firm, in transit from customer to firm, etc.);
 - Name of security;
 - CUSIP number; and,
 - Certificate numbers.

Routine Inquiries: Colorado Financial Service, if an Indirect Inquirer, is required to make inquiries as to whether or not securities received by Colorado Financial Service have been previously reported as missing, lost, counterfeit or stolen. This inquiry is required to be made whenever Colorado Financial Service receives securities unless:

- The securities are received from a customer of the firm and are registered in the name of that customer or its nominee, or they were previously sold to that customer as verified by the firm's internal records. "Customer" is defined as any person with whom the firm has entered into at least one prior securities-related transaction, or
- The securities are received as part of a transaction which has an aggregate face value of \$10,000 or less for bonds, or market value of \$10,000 or less for stocks.

Therefore, cashiering personnel are required to make inquiries to SIC whenever stock/bonds are:

- received for a new account where Colorado Financial Service has not executed any prior securities transactions (Note: An inquiry must be made if a receipt of securities into an account corresponds to the first transaction (i.e. a customer sale) in the account).

- registered in a name other than that on the customer's account. (Note: A third-party release form is also required in this instance).

However, no inquiry is required if the market value of the securities is less than \$10,000.

Inquiry Procedures: Designated cashiering personnel must determine whether the securities received are subject to the inquiry requirement. If so, SIC must be contacted by telephone to make the inquiry. The phone number is **(617) 235-4570**. SIC will ask whether the purpose of the call is to make a report or an inquiry. An inquiry should be indicated and the following information should be provided:

- Clearing firm's FINS number.
- Access Code.
- CUSIP number, and
- Certificate numbers.

SIC will indicate whether the inquiry is a match or is not a match. A match indicates that the securities have been previously reported as lost, missing, stolen or counterfeit. If a match is indicated, cashiering personnel should ask for instructions from SIC on how to proceed and should immediately advise the designated cashiering principal. No match indicates that the securities are clear for processing.

To document the inquiry, cashiering personnel must complete the securities receipt form and the SIC Report form. The SIC Report form should be maintained in a separate file and shall be periodically reviewed by the designated cashiering principal. Securities receipt forms must be approved daily by the designated principal.

The Financial and Operational Principal, or designee, is responsible for insuring all required inquiries and reports are made in compliance with SEC Rule 17f-1.

Death of a Customer

Upon the receipt of notice of a customer's death, all unexecuted orders for the customer are to be canceled. The account is to be frozen and all activities terminated until a legal representative of the deceased customer's estate has been duly appointed and qualified and has furnished Colorado Financial Service with the necessary documents evidencing authority to act on behalf of the deceased customer's account. Special problems arise in joint accounts upon the death of a joint tenant, and in connection with partnership accounts upon the death of a general partner. No action should be taken with respect to either of these types of accounts without prior authorization of the designated principal.

Customer Account Transfers

Upon the receipt of transfer instructions, Colorado Financial Service will promptly forward such instructions to its clearing firm who will validate or reject such instruction within five business days, and will follow up with the clearing firm to assure the actual transfer of all security and money balances within five business days after validation.

GENERAL SALES AND TRADING STANDARDS

RECOMMENDATIONS TO CUSTOMERS

Suitability of Recommendations

In recommending to a customer the purchase, sale or exchange of any security, a registered representative must have reasonable grounds for believing that the recommendation is suitable for such customer based upon essential information obtained from the customer, including:

- the customer's age;
- financial status;
- tax status;
- investment objectives;
- occupation; and,
- previous investment experience.

Recommending the purchase, sale, or exchange of any security without reasonable grounds for believing that the recommendation is suitable is expressly forbid.

Unsuitable investment recommendations take many forms but the most common are:

- Recommending investments which fluctuate in value to customers who cannot afford to lose principal;
- Recommending long-term investments to customers with short term time horizons; and,
- Recommending aggressive investments such as growth stocks and equity funds to elderly customers needing income for retirement.

Colorado Financial Service has adopted the following standards which prohibit or restrict registered representatives' authority to give investment advice and to make recommendations. These standards are designed not only for the purpose of minimizing the likelihood of unsuitable investment recommendations, but also for managing other areas of risk exposure associated with particular securities and investment practices.

Suitability Standards

Sound investment advice is implied to be the product of reasonable investigation and research, or due diligence, by a qualified professional. Colorado Financial Service has adopted the following standards to promote the quality and soundness of advice offered to customers:

- Sales representatives are prohibited from making investment recommendations which cannot be reasonably supported, justified and defended;
- Prior to making investment recommendations, representatives must possess product knowledge sufficient to: (i) support their basis for making the recommendations; and (ii) understand and convey the material risks associated with the investments;
- Investments may not be selected on the basis of selling compensation or any other consideration which may compromise Colorado Financial Service's obligation to promote the customer's best interests at all times.

Account Records Maintained by Sales Personnel

Sales representatives, as part of their duties and responsibilities, **must maintain or have ready access to a complete, accurate and up-to-date record** of clients' transactions and holdings. Representatives must also regularly update and keep current customers' new account information, including financial status, investment objectives, and other suitability information. Under no circumstances may a representative make securities recommendations without first determining that the transaction is suitable based upon the clients documented suitability profile.

All client records, which must be kept currently posted, are always subject to surprise inspections by a

principal, CCO, internal auditor or external regulator (such as the SEC, FINRA, Federal Reserve, or state).

Each customer account record must contain sufficient current information upon which suitability determinations can be made and must indicate the investment objective or objectives of the client with an appropriate notation in case these objectives change or a client wishes to place a certain proportion of funds in securities or products which are contrary to the client's primary investment objective. Each sales representative is responsible for monitoring suitability information for currency and making the necessary updates to the customer's new account records promptly upon becoming aware of any changes.

All client account records as recorded and maintained are the property of Colorado Financial Service.

Institutional Suitability

The two most important considerations in determining the scope of a member's suitability obligations in making recommendations to an institutional customer are the customer's capability to evaluate investment risk independently and the extent to which the customer is exercising independent judgment in evaluating a member's recommendation. RR's must conform their recommendations to these considerations and to the foregoing additional standards.

A determination of capability to evaluate investment risk independently will depend on an examination of the customer's capability to make its own investment decisions, including the resources available to the customer to make informed decisions. Relevant considerations could include:

- the use of one or more consultants, investment advisers or bank trust departments;
- the general level of experience of the institutional customer in financial markets and specific experience with the type of instruments under consideration;
- the customer's ability to understand the economic features of the security involved;
- the customer's ability to independently evaluate how market developments would affect the security; and
- the complexity of the security or securities involved.

A determination that a customer is making independent investment decisions will depend on the nature of the relationship that exists between the member and the customer. Relevant considerations could include:

- any written or oral understanding that exists between the member and the customer regarding the nature of the relationship between the member and the customer and the services to be rendered by the member;
- the presence or absence of a pattern of acceptance of the member's recommendations;
- the use by the customer of ideas, suggestions, market views and information obtained from other members or market professionals, particularly those relating to the same type of securities; and
- the extent to which the member has received from the customer current comprehensive portfolio information in connection with discussing recommended transactions or has not been provided important information regarding its portfolio or investment objectives.

Supervision of Recommendations

The designated principals shall review and endorse, in writing, all transactions and regularly verify that registered representatives are complying with the aforementioned standards. Appropriate supervision shall be conducted through: (i) initial and on-going suitability reviews of account activity; (ii) review of correspondence; (iii) periodic monitoring of sales presentations; and (v) periodic spot-checking of due-diligence files (if applicable).

FAIR PRICES AND COMMISSIONS

Colorado Financial Service currently does not engage in any transactions involving discretionary pricing or

charging of commissions. In the event this changes, the firm will follow the following procedures.

Conduct Rule 2440 requires the firm to charge fair and reasonable mark-ups, mark-downs and commission in all principal, riskless principal and agency transactions effected with its customers. Some factors to consider when determining whether the prices charged to customers are fair and reasonable include:

1. Market conditions at the time of the trades;
2. The expense involved in completing the trades;
3. The fact that the firm is entitled to a profit; and
4. The value of the services provided by the firm.

The firm may not enter into a transaction with a customer in any security at any price that is not reasonably related to the prevailing market price of the security. In the absence of a prevailing market price, the firm's contemporaneous cost will be the best indication of the prevailing market price.

While the FINRA has established a "5% Policy", it is meant only as a guide, not a rule. In no way should the firm assume that any charge below 5% would be deemed reasonable. In the same respect, there may be occasions when a charge in excess of 5% may be acceptable, i.e. the firm sets a "minimum commission" of \$50 on all trades to cover their expenses and if a small trade is placed by a customer, the \$50 commission could easily translate to a greater than 5% charge.

The designated principal overseeing each trading and sales representative will review all trade related charges to ensure the prices charged to customers are fair and reasonable. If the assigned principal discovers a situation where he believes an excessive fee was charged, he will take appropriate steps to rectify the problems, including canceling and re-billing the trade with a lower commission.

BEST-EXECUTION

The duty of best execution requires the firm to seek to obtain the most favorable terms available under the circumstances for its customer orders. This applies whether the firm is acting as an agent or as principal. The firm must use "reasonable diligence" to determine the best market for a security, and buy or sell the security in that market, so that the price to the customer is as favorable as possible under prevailing market conditions. The factors the firm should consider in determining best execution include:

1. The character of the market for the security, such as price, volatility, liquidity and pressure on available communications;
2. The size and type of transaction;
3. The number of primary markets checked' and
4. Location of and the firm's accessibility to the primary markets and quotations systems.

The firm will not, in its transactions with customers, interject a third party between itself and the best available market unless by doing so, the firm can gain a better price for the customer than the current inter-dealer market. The firm may forward its customers' orders to its clearing firm for execution, but the cost of such services cannot be borne by the customer. The firm will bear the primary responsibility to ensure its clearing firm is obtaining best execution on its customers' order. If the clearing firm knowingly allows the firm to disregard its best execution responsibilities, the clearing firm could also be deemed to have failed to provide best execution.

The designated principal will monitor the executions received on customer orders, working with its clearing firm to ensure the best executions are obtained. Any issues discovered will be addressed with the clearing firm's compliance and/or trading departments.

COLD CALLING RESTRICTIONS

The FCC, FINRA, and MSRB have adopted a cold-calling rule which restricts telemarketing efforts of broker/dealers and other commercial entities. Colorado Financial Service and its associated persons shall abide by the following restrictions/requirements:

- **Time of Day Restrictions** - No cold calls may be made before 8 a.m. or after 9 p.m.;
- **Do-Not-Call Lists** - When called parties request that no further cold calls be made to them, associated persons must add their names to a do-not-call list. This list will be maintained by the designated principal who shall distribute it periodically to all Colorado Financial Service representatives who make cold calls. In addition, representatives must not make any cold-call to any party appearing on a national Do-Not-Call registry unless the telephone call is permitted under an exception to the general prohibition.
- **Identification Requirements** - Registered representatives making cold calls must provide the called party with their name, business phone number and address, and state their affiliation with Colorado Financial Service; and,
- **Training Requirements** - Colorado Financial Service shall provide periodic training to representatives concerning its established cold-calling policy and procedures.
- **Telemarketing Scripts** - Colorado Financial Service shall review and approve telemarketing scripts. Records of the review and approval shall be retained as with other advertising material

MARKET MAKING AND TRADING

Colorado Financial Service does not engage in market making activities of any kind. All Colorado Financial Service equity trading is effected on an "as-agent" basis only. Colorado Financial Service introduces all transactions to its clearing firm for execution.

Order Size Limits

While representatives may not be subject to explicit order size limitations, these representatives are required to make affirmative determinations based on their knowledge of the customer that the customer will complete the transaction. If an affirmative determination can not be made, the representative shall require the customer to deposit sufficient funds or securities to cover the potential exposure from any resulting buy-in or sell-out prior to entering the customer's order. representatives assume full liability for all losses incurred from buy-ins and sell-outs.

CONFIRMATIONS DISCLOSURES

Conduct Rule 2230 requires that the firm, at or prior to completion of each transaction with a customer, give or send the customer a written confirmation disclosing:

- a. Whether the firm is acting as a broker for the customer, as a dealer for its own account, as a broker for some other person or as a broker for both the customer and some other person;
- b. In the case where the firm is acting as a broker for the customer or as the broker for both the customer and some other person, either the name of the person from whom the security was purchased from or sold to and the date and time of the trade or the fact that such information is available upon request by the customer; and
- c. The source and amount of any commission or remuneration received or to be received by the firm in connection with the trade.

confirmations at the time of each trade. SEC Rule 17a-4 (b) (1) requires the firm to keep copies of confirmations for three years, of which the first two years must be in an accessible place.

The specific product sponsors with whom Colorado Financial Service maintains selling agreements will prepare trade confirmations of all customer trades. The firm's CCO will periodically review confirmations to ensure that they are being sent promptly and meet the requirements of the applicable rules.

TRANSACTION APPROVAL

Customer Accounts and Transaction Procedures

All new accounts opened with COLORADO FINANCIAL SERVICE will require the firm's acceptance of such account. Acceptance will be acknowledged by the designated principal's signing and dating of all New Account Forms.

NEW ACCOUNT APPLICATION OR UPDATE:

Required for each type of account (i.e. individual, IRAs, Joint, Trusts, etc.). This form must be filled out and signed and dated by the registered representative and the approving principal. A principal, prior to, or concurrent to, an initial transaction must approve all NEW accounts.

EQUITY TRANSACTION APPROVAL

All equity transactions shall be promptly endorsed in writing by the designated principal. Such approval will evidence the order's compliance with all of the regulations and procedural standards addressed in this manual, including the following:

Required Information on Order Memoranda:

- Name/Number/Other Designation of customer account
- Capacity - agency or principal
- Name of Security
- # of shares, bonds, units, etc.
- Term and conditions of order:
 - o Buy
 - o Sell
 - o Trade Date
 - o Settlement Date
 - o Limit order type (GTC, Day, etc.)
- Price executed
- Price - if limit order
- Registered Representative
- Type - margin, cash etc.
- Solicited or unsolicited
- If agency transaction, the time of entry and the time of execution. If principal trade, only the time of execution need be noted

- If discretionary power is used.
- Initials of registered principal reviewing trade if the order ticket is the document reviewed.
- Identify each associated person, if any, responsible for the account and any other person who entered or accepted the order on behalf of the customer, or if a customer entered the order on an electronic system, a notation of that entry;

If SELL

- whether long or short
- location of stock if short sale & if stock available
- prompt receipt & delivery - where stock is located, in safekeeping, deliver 3 days etc.

Compliance with Rule 3370:

It will be deemed a violation of FINRA Conduct Rule 3370 for Colorado Financial Service or person associated with Colorado Financial Service to violate the provisions of the following interpretation thereof:

- (a) Purchases: No Firm or person associated with Colorado Financial Service may accept a customer's purchase order for any security unless it has first ascertained that the customer placing the order or its agent agrees to receive securities against payment in an amount equal to any execution, even though such an execution may represent the purchase of only a part of a larger order.
- (b) Sales:
 - (1) Long Sales

No person associated with Colorado Financial Service will accept a long sale order from any customer in any security unless:

- (A) Colorado Financial Service has possession of the security,
 - (B) The customer is long in his or her account with Colorado Financial Service,
 - (C) Colorado Financial Service or person associated with a Firm makes an affirmative determination that the customer owns the security and will deliver it in good deliverable form within three (3) business days of the execution of the order; or
 - (D) The security is on deposit in good deliverable form with a member of the FINRA, a member of a national securities exchange, a broker/dealer registered with the SEC, or any organization subject to state or federal banking regulations and that those instructions have been forwarded to that depository to deliver the securities against payment.
- (2) "Short Sales"
 - (A) Customer short sales. Neither Colorado Financial Service nor any person associated with Colorado Financial Service will

accept a "short" sale order for any customer in any security unless Colorado Financial Service or person associated with Colorado Financial Service makes an affirmative determination that Colorado Financial Service will receive delivery of the security from the customer or that Colorado Financial Service can borrow the security on behalf of the customer for delivery by settlement date. Availability of stock will be noted on the order ticket. This requirement will not apply, however, to transactions in corporate debt securities.

(B) Proprietary short sales. Neither Colorado Financial Service nor any person associated with Colorado Financial Service will affect a "short" sale for its own account in any security unless Colorado Financial Service or person associated with Colorado Financial Service makes an affirmative determination that Colorado Financial Service can borrow the securities or otherwise provide for delivery of the securities by settlement date. This requirement will not apply to transactions in corporate debt securities, to bona fide market making transactions by Colorado Financial Service in securities in which it is registered as an NASDAQ market maker, to bona fide market maker transactions in non NASDAQ securities in which the market maker publishes a two sided quotation in an independent quotation medium, or to transactions which result in fully hedged or arbitrage positions.

(3) "Affirmative Determination"

(A) To satisfy the requirements for an "affirmative determination" contained in subsection (b) (1) (C) above for long sales, Colorado Financial Service or person associated with a Firm must make a notation on the order ticket at the time the order is taken which reflects the conversation with the customer as to the present location of the securities in question, whether they are in good deliverable form and the customer's ability to deliver them to Colorado Financial Service within three (3) business days. The other determining factor can be a "hard to borrow" list of stocks which is received from the clearing firm each morning. The list will be reviewed to determine the availability of stock.

(B) To satisfy the requirement for an "affirmative determination" contained in subsection (b) (2) above for customer and proprietary short sales, Colorado Financial Service or person associated with a Firm must keep a written record which includes:

- (i) if a customer assures delivery, the present location of the securities in question, whether they are in good deliverable form and the customer's ability to deliver them to Colorado Financial Service within three (3) business days; or
- (ii) if Colorado Financial Service or person associated with a Firm locates the stock, the identity of the individual and firm contacted who offered assurance

that the shares would be delivered or that they were available for borrowing by settlement date and the number of shares needed to cover the short sale.

- (C) An affirmative determination and annotation of that affirmative determination must be made for each and every transaction since a "blanket" or standing assurance that securities are available for borrowing is not acceptable to satisfy the affirmative determination requirement. This determination will be made on the appropriate order ticket.

CHANGES TO ACCOUNT NAME OR DESIGNATION

Changes to Account Name or Designation on Order Memoranda

All changes to the account name or designation (including error accounts) of unexecuted orders/transactions are required to be submitted by each RR to their designated principal for written approval prior to effecting the change. Prior to approving any such change, the designated principal will inquire as to the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member, which will be retained for a period of not less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in SEC Rule 17a-4.

CUSTOMER ACCOUNT ACTIVITY REVIEW

In addition to reviewing and approving all transactions, the designated principal(s) shall conduct reviews of customer account activity. The primary purpose of these reviews will be to detect potential sales practice problems and abuses including unsuitable recommendations, unauthorized trading and churning. A representative sample of trades should be selected for review based upon known concerns, magnitude of account activity, and level of speculative account activity. The review will entail relating the customer's investment objectives, income and net worth to the activity in the customer's account activity. If the above review procedures reveal suitability or other potential problems, the designated principal(s) should promptly inform the Chief Compliance Officer. If any unauthorized or suspicious trades are detected either in the daily review or other reviews, steps will be taken to immediately investigate this activity. The steps taken may include obtaining further documents, talking to the registered representative or other involved parties, visiting with the customer, etc. Detailed notes shall be prepared and maintained describing the events, facts uncovered and actions taken. If fraudulent or other questionable activities are confirmed, CFS should take immediate steps to suspend or terminate the person involved.

The designated principal(s) shall conduct and evidence such reviews on at least a semi-annual basis, and retain all supporting documentation for the time period proscribed by SEC Rule 17a-4.

The Chief Compliance Officer shall conduct similar activity reviews of customer accounts on an annual basis and evidence the review by initialing applicable supporting documentation.

ORDER AUDIT TRAIL SYSTEM (OATS)

FINRA has established the Order Audit Trail System (OATS) as an integrated audit trail of order quote and trade information for NASDAQ securities. FINRA uses this audit trail system to recreate events in the life cycle of orders and to more completely monitor the trading practices of member firms.

Under FINRA Rules 6950 through 6957, firms executing applicable transactions are required to develop a means for electronically capturing and reporting to OATS specific data elements related to the handling or execution of orders, including recording all times of these events in hours, minutes and

seconds and to synchronize their business clocks.

Colorado Financial Service's clearing firm will be responsible for all OATS reporting. To the extent that CFS receives, routes, and/or executes applicable orders, it will ensure that such orders are time-stamped as required, and that its time-stamping mechanism is synchronized on a daily basis. The principal designated to oversee trading and execution activities is responsible for regularly documenting that the firm's synchronization procedures are followed.

UNDERWRITING

CFS limits its underwriting participations in public offerings to that of a selling group member and does not act as an underwriter (with liability) in any offerings. To the extent that it intends to modify its business to include underwriting activities, it will first consult with FINRA to determine whether an application is required to be filed pursuant to FINRA Rule 1017. In addition, it will review the following standards for adequacy prior to engaging in any underwriting activity.

PUBLIC OFFERINGS

Registration Statement:

The form of registration statement utilized and the information which must be provided to customers purchasing securities in a public offering are dependent on the type of securities offered (debt, common stock or preferred stock, convertible or nonconvertible), the type of issuer involved (established or newly organized, privately held or the issuer of securities previously sold to the public, a government or quasigovernmental agency, etc.), the dollar amount of the offering and the seller of the securities (the issuer or stockholders). The general instructions preceding each Form of registration statement authorized by the SEC set forth proper utilization of that Form. Regardless, of the form of registration statement utilized, all employees of the Firm must act with extreme care to ensure that the Firm exercises due diligence in the fulfillment of its underwriting obligations.

Special rules govern the purchase and sale of securities from time to time pursuant to a shelf registration statement. Any employee who receives any inquiry regarding such a purchase or sale must contact the Chief Compliance Officer prior to entering any orders for that security.

Due Diligence:

It shall be the responsibility of the President of Colorado Financial Service to determine and conduct whatever due diligence inquiry is deemed appropriate in connection with any public offering by an issuer in which this Firm acts as the managing underwriter. The following documents are examples of what may be reviewed:

The Financial Statements:

- Audited (or unaudited if not available) financial statements for the past five (5) years.
- Budgets, forecasts and internal audit controls;
- Official Statement as to its accuracy;
- Verify with the appropriate auditors, counsel and other independent personnel and information;
- Litigation and Administrative Proceedings and obtain opinion of counsel;
- Use of Proceeds;
- Accountant engagement letter;

Additionally, the financial advisors of the issuer shall be interviewed to determine the adequacy of the disclosure relating to the issuer and its management. Generally, Colorado Financial Service's counsel shall conduct the majority of the due diligence in consultation with Colorado Financial Service's President or designee. The extent of any due diligence inquiry shall be determined by the Firm's President or the President's designee, taking into account the size of the offering and prior dealings between CFS and the issuer and the nature of the proposed use of proceeds.

Other Documents:

- ✓ Official minute books of the issuer containing minutes of all board meetings;
- ✓ Recent financial statements of the issuer;
- ✓ Schedule of all pending or threatened legal proceedings in which the issuer is a party;
- ✓ Copies of all documents evidencing title or leases to the issuer's material real property (if any);
- ✓ Most recent letters from lawyers to the issuer's independent public accountants in connection with lawyer's work on matters for the issuer;
- ✓ Reports ("management letters") of the issuer's independent public accountants for the last three years relating to management and
- ✓ accounting procedures of the issuer;
- ✓ Reports and opinions of outside public relations firms and consultants and copies of consulting agreements;
- ✓ Financial forecasts, pro-forma use of proceeds;
- ✓ Copies of all fidelity or other bonds carried by issuer for liability or loss due to acts or omissions of its employees and copies of all applications to procure such bonds for the last two years, copies of all claims made under such bonds, and disposition of claims, for the last two years;
- ✓ Applications to and /or reports or ratings from rating agencies (e.g., Standard & Poors, Moody's);

DISTRIBUTIONS (PUBLIC AND PRIVATE)

The term "distribution," as used herein, includes all distributions of securities whether they are registered or unregistered whether they are primary or secondary offerings. No associated person of Colorado Financial Service is authorized to commit Colorado Financial Service to participate in any distribution except with prior written approval of the President.

Disclosure of Affiliation

The designated underwriting principal is responsible for ensuring that Colorado Financial Service does not participate in the distribution of any securities if Colorado Financial Service controls, is controlled by, or is under common control with the issuer of any security Colorado Financial Service, before entering into any contract with or for any customer purchasing or selling the securities, discloses to such customer the existence of such control in writing prior to the completion of the transaction.

Disclosure of Interest in Distribution

The designated underwriting principal is responsible for ensuring that Colorado Financial Service does not participate in the primary or secondary distribution of any securities if Colorado Financial Service intends to receive fees from customers advised to purchase the securities unless, before entering into any contract with or for any customer purchasing or selling the securities, provides written notification to such customer of Colorado Financial Service's participation and interest in the distribution.

REGULATION M**Restrictions on Trading when participating in a Distribution of Securities**

In general, Regulation M makes it unlawful for any person, while participating in a distribution of a security, to bid for, purchase or induce others to purchase, another shares of that security, any shares of a security of the same class and series as the security being distributed, or any option or right to purchase any such security, until the participation has been completed. The Firm's involvement in both public and private distributions of securities is governed by Regulation M. Colorado Financial Service's participation in a distribution of securities is deemed to commence from the time it agrees to manage or become a member of the syndicate or selling group or to submit a bid to become a syndicate member.

The distribution is not considered completed for purposes of SEC Rules until Colorado Financial Service has distributed its participation and any stabilizing arrangements and trading restrictions to which it is a party have been terminated. Also, the distribution is not considered completed if the Firm holds any outstanding options to purchase an additional amount of securities not necessary to cover a syndicate short position that remains in connection with such distribution. The Syndicate Manager shall be responsible for providing all employees with timely notice of the Firm's participation in any distribution of securities to ensure compliance with SEC Rules. Certain transactions are exempt under Rule 10b-6. Because these exemptions are complicated, before relying on any of them in a particular case, an RR, except the Syndicate manager handling the account during the participation, should check with the Chief Compliance Officer.

Disclosures and Solicitation

If the Firm is acting as an underwriter or a placement agent of a distribution of securities and the Firm and its employees are not prohibited from effecting transactions in the securities under SEC Rule 10b-6, or if the Firm is otherwise financially interested in distribution, all employees and associated persons who effect transactions in such securities must disclose the Firm's participation or interest in the distribution to any customer prior to completion of such transaction. A list of distributions in which the firm is participating or is financially interested shall be distributed weekly by the Firm. No employee or Account Executive shall solicit the purchase on a national securities exchange of any security of an issuer, which is effecting a distribution of securities in which the Firm is participating or is financially interested.

FREERIDING AND WITHHOLDING

The Firm is obligated to make a bona fide public distribution at the public offering price of securities distributed via a private or public offering which trade at a premium in the secondary market whenever such secondary market begins (a "hot issue"), regardless of whether the Firm acquires the securities as an underwriter, placement agent or selling group member, or from an FINRA member acting as an underwriter, placement agent or selling group member, or otherwise. In fulfillment of this obligation, the Firm is prohibited from retaining any of the hot issue in its accounts or selling any of it to its employees, officers, directors or agents, including members of their immediate families, or affiliates of the Firm. In addition, sales of hot issues may not be made to the following persons, except as authorized in writing by the Head of the Corporate Finance Department giving due regard to the Free-Riding and Withholding Rule as otherwise stated:

- Persons associated with a broker/dealer, including any officer, director, general partner, employee or agent of agent of any broker/dealer or a member of the immediate family of any such person if such person contributes directly or indirectly to the support of such member of the immediate family.
- A person who is a finder in respect to the offering, or who is acting in a fiduciary capacity to the managing underwriters, including, among others, attorneys, accountants, and financial consultants, or to a member of the immediate family of any such person This restriction also broadly applies to any person who is in a position to influence the buying or selling of securities by an institutional account. In all cases, the prohibition applies to the immediate family of any such person. The definition of immediate family includes brothers-in-law and sisters-in-law.
- Any senior officer of a bank, savings and loan institution, insurance company, registered investment company, registered investment advisory firm or any other institutional type customer, domestic or foreign, or to any person in the securities department of, or to any employee or any other person who may influence, or whose activities directly or indirectly involve, or are related to, the function of buying or selling securities for any bank, savings and loan institution, insurance company, registered investment firm, or other institutional type customers, domestic or foreign or to a member of the immediate family of any such person. Provided however, the Firm may sell part of the hot issue to persons enumerated in paragraphs (2) or (3) hereof; and

- any customer in which any person specified under paragraph (2) or (3) has a beneficial owner if the Firm is prepared to demonstrate that the hot issue was sold to such persons in accordance with their normal investment practice with the Firm, that the aggregate of the hot issue sold is insubstantial and not disproportionate in amount as compared to sales to members of the public and that the amount sold to any one of such person is insubstantial in amount. The head of the Corporate Finance department shall be responsible for making this determination, and all inquiries regarding sales of hot issues to such persons shall be directed to the head of the department.
- Any other broker/dealer; provided, however, the Firm may sell all or part of the hot issue to another member broker/dealer upon receipt from the latter in writing of assurance that such purchase will be made to fill orders for bona fide public customers at the public offering price as an accommodation to them and without compensation for such.
- Domestic banks, domestic branches of foreign banks, trust companies or other conduits for an undisclosed principal (e.g. an investment adviser who does not provide the name of its client), unless assurance that the ultimate purchaser is not a restricted person is received and the responsible RR has made a record of having received this assurance by completing the form for this purpose. The form should then be initialed by a supervisor and attached to the order ticket.
- Foreign banks or foreign broker/dealers unless the foreign customer writes a letter giving blanket assurance that all of its purchases of underwriting will be in compliance with the FINRA Rules. The Operations Department routinely provides a form of letter to all new accounts for foreign banks or brokers.
- Hedge funds, private corporations and partnerships, other than a registered investment company, unless the Firm receives from the customer a list of the names and business connections of every person having a beneficial interest in such entity. This information is necessary to determine if any person who has an interest in the account would otherwise come within the prohibitions of the Free-Riding and Withholding Rule. For instance, if any person associated with a brokerage firm was a stockholder or partner along with customer, the customer could not receive an allocation of a hot issue. The Corporate Finance Department will not allocate stock in hot issues to a partnership or corporate customer without clearance from the Compliance Department, which should have on file the required list of beneficial owners with their business connections.

FRAUD AND LIABILITY

As a placement agent of securities sold in a private offering, as an underwriter of securities sold in a public offering, and as a purchaser or seller of securities, the Firm is subject to various public and private liability provisions set forth in the Securities Act, the Exchange Act and the rules and regulations of the SEC promulgated there under. Any person who acquires a security which is sold by means of a registration statement containing an untrue statement of a material fact or omitting a material fact that is required to be stated or necessary to make the statements not misleading may sue the issuer, the underwriters, including the Firm, and various other persons affiliated with the issuer and professionals associated with the offering for damages.

CORPORATE FINANCE FILINGS

The Corporate Finance Principal is responsible for ensuring that all required filings in connection with offerings are filed on a timely basis with FINRA Corporate Finance. To ensure compliance with the FINRA's Corporate Financing Rules, and prior to commencing any work on any offering of securities in which the CFS will participate, the Corporate Finance Principal will confirm with the Chief Compliance Officer whether outside counsel should be consulted to determine whether any such filings are required.

DIRECT PARTICIPATION PROGRAMS

We may offer investments in direct participation programs. When such products are made available to registered representatives of the Firm, representatives must follow certain procedures and observe a much higher degree of suitability in recommending such products to investors.

I. Limited Principal—Direct Participation Programs (FINRA Rule 1022(e))

- A.** The Company may employ one or more individuals whose activities are limited solely to the interests in or the debt of direct participation programs. Prior to such individuals being assigned supervisory responsibilities, they shall first register and qualify with the FINRA as a Limited Principal—Direct Participation Program.
- B.** Those individuals registered solely as a Limited Principal—Direct Participation Program shall not be assigned any supervisory responsibilities except as relates to the equity interests in or the debt of direct participation programs.

II. Supervisory Responsibility

The Designated Supervisory Principal is responsible for ensuring the Company's compliance with all laws, rules and regulations applicable to direct participation programs. Responsibilities shall include, but are not limited to:

A. Review and approval of all direct Participation Programs (DPP's)

- 1.** To ensure compliance with the FINRA's Corporate Financing Rules (Rules 2710 and 2810), prior to commencing any work on any offering of securities in which the Company will participate, each employee will confirm with the compliance officer that:
 - (a)** Outside counsel has been consulted to determine whether any Corporate Filing Ruling filings are required, and
 - (b)** If such filings are required, that the compliance officer will submit or direct the creator of any offering documents as outlined below for each and every offering to the FINRA Corporate Financing Department no later than one business day after the filing of any such documents with either the Securities and Exchange Commission, the state securities commission or with any other regulatory authority.
- 2.** If it is determined, after review by outside counsel, that such documents are not required by law to be filed with any regulatory authority the Company will file or assure such documents will be filed with the FINRA at least 15 days prior to the anticipated offering date of such securities.
- 3.** The Company will submit to the FINRA Corporate Financing Department, or cause to be submitted to the FINRA Corporate Financing Department, for review the following documents with respect to any offering of securities prior to the offering of any such securities:
 - Five (5) copies of the registration statement, offering circular, offering memorandum, notification of filing, notice of intention, application for conversion and/or any other document used to offer securities to the public;
 - Three (3) copies of any proposed underwriting agreement, agreement among underwriters, letter of intent, consulting agreement, partnership agreement, and any other documents

- Five (5) copies of each pre- and post effective amendment to the registration statement or other offering document, one copy marked to show changes; and three copies of any other amended document previously filed with one marked to show any changes; and;
- Three (3) copies of the final registration statement declared effective by the Commission or equivalent final offering document and a list of the members of the underwriting syndicate, of not indicated therein, and one copy of the executed form of the final underwriting documents and any other document submitted to the FINRA for review.

B. Maintenance of issuer and due diligence files;

C. Review and approval of all transactions involving SEC Regulation D offerings, to be Evidenced by the initiating of order tickets at the time of transactions and by initiating the Company's copy of subscription documents upon receipt of the signed documents; and,

D. Preparing a list of approved DPP's, updating the list monthly and circulating it throughout the company.

E. Reporting Requirements (Rule 2340 as amended 4/16/2001) – Since the Company does not carry customer accounts and does not hold customer funds and securities it is exempt from the reporting requirement under the Customer Account Statement Rule.

III. Review and Approval. The Chief Compliance Officer shall review and give prior approval to all transactions in public DPP's, to be evidenced by the initiating of order tickets at the time of transactions, as well as the Company's copy of the subscription documents upon receipt of the signed documents.

IV. Compensation in Connection with Public DPP's

A. Payment to the Company. All compensation involving direct participation programs, including expense reimbursement, non-cash compensation or sales incentives, must be paid directly to the Company and not to any registered representative or employee of the Company.

B. Aggregate Value. The aggregate value of non- cash sales incentive Items shall not exceed a minimum amount per year by any sponsor, such amount to be reasonably established by the Chief Compliance Officer.

C. Compensation to be Mutually Beneficial. The Company's compensation policies should be designed to align the interests of the client, the registered representative and the Company, and to encourage long-term relationships among all parties.

D. Sales Contests. Sales contests involving DPP's are prohibited.

E. Indeterminate Compensation

1. **Prohibited Compensation.** Types of compensation prohibited as "indeterminate" include, but are not limited to:

- a) a percentage of management fees;
- b) profit- sharing arrangements;
- c) overriding royalty interests;
- d) net- profit interests;
- e) a percentage of revenues;
- f) reversionary interests;
- g) a working interest;

- h) a security or right to acquire a security having an indeterminate value.

F. Conditions for Acceptance.

1. **Indeterminate compensation may be** accepted by the Company only if the following conditions are satisfied:
 - a) **Receipt.** Indeterminate compensation may be received only after all investors have received cash distributions from the program equal to 100 percent of their cash investment plus 6 percent cumulative annual return on their adjusted investment. The “cash investment” includes the amount paid by the investor for the security in cash, payments of assessments, and reinvestment of a limited partner’s income in the same program, but does not include any amounts represented by an outstanding promissory note on unpaid installments;
 - b) **Calculation.** Indeterminate compensation must be calculated as a percentage of cash distributions from the program;
 - c) **Back-End Compensations.** The amount of back-end compensation must be restricted to no more than 3 percent of a partnership’s cash distributions for each one percentage point that the total of all underwriting compensation received at the time of the offering falls below 9 percent. Thus, indeterminate compensation is permitted only when the aggregate of all categories of front-end compensation is below 9 percent.
 - d) **Total Compensation.** The total amount of indeterminate compensation is restricted to 12% of the cash distributions from the program. In addition, the percentage of indeterminate compensation provided from a limited partner’s interest in program distributions cannot exceed the percentage that limited partner’s are entitled to receive.

G. Approval of Compensation. The Chief Compliance Officer will evidence his/her review and approval of compensation by virtue of their acceptance of such compensation paid to the Company.

V. Brokerage of DPP’s in the Secondary Market

- A. Supervision.** Secondary market transactions in direct participation programs are permitted under the direction of the Chief Compliance Officer, although widespread solicitation of these transactions is prohibited.
- B. Definition.** DPP Transactions are offered on a secondary basis are defined as those transactions which are not between the issuer of the DPP and a client of the Company.
- C. Execution.** DPP Transactions are executed on an agency basis, rather than on a dealer basis. The Company does not make markets in these securities, and under no circumstances will the Company issue quotations in DPP’s.
- D. Transactions.** A customer who wants to sell his/her interest in a DPP is matched with a potential purchaser at an agreed upon price, plus commission. The commission must be fair and reasonable, taking into consideration all relevant circumstances.

E. Procedures for Completing Transactions

1. **Approval.** The proposed transaction shall be presented to the Chief Compliance Officer for approval prior to acceptance of the transactions.

2. **Suitability.** Evidence of the suitability of the recommendations made to both the seller and the purchaser is required. The registered representative must document their reasons on a New Account Application Form either supplied by the Clearing Firm or the Company, for believing that the recommendations are suitable based upon their customer's investment objectives, other investments, financial situation and needs, tax status and any other information known to the registered representative. Additionally, the registered representative must make determination as to whether the purchaser has the appropriate investment objectives, is in a position to fully understand the risks and benefits of the transactions, and has a net worth sufficient to sustain the risks involved in investing in a DPP security. The Chief Compliance Officer will review, sign and date each new account application.
 3. **Best Efforts.** The representative shall have obtained quotations from at least three dealers (or all dealers, if less than three is available) to determine the best inter-dealer market price. These quotations should be noted by the representative on the order ticket.
 4. **Issuer Approval.** Upon approval of the transaction, request for the issuer's approval of the transactions must be sent in writing to the issuer, usually through the issuer's general partner.
 5. **Confirmation.** Confirmations subject to the issuer's approval must be prepared for both the seller and the purchaser for approval by the Company under the direction of the Chief Compliance Officer. Once approved, confirmations must be forwarded to both the seller and the purchaser.
 6. **Disclosure.** Confirmations must contain disclosures as to the Company's role as "agent" in the transaction; the date of the transactions; the identity, price, and amount of the security purchased or sold; and, the amount of the commission charged.
 7. **Reporting.** The Chief Compliance Officer shall be responsible for reporting price and volume to the FINRA pursuant to Schedule H reporting requirements.
 8. **Disbursement of Funds.** Upon receipt of the issuer's approval, funds will be disbursed to the seller with commission disbursed to the Company.
 9. **Record-keeping.** Copies of order tickets, confirmations, and requests for issuer's approval are filed under the direction of the Chief Compliance Officer.
- F. Issuer and Due Diligence Files.** Issuer and due-diligence files shall be maintained by issue under the direction of the Chief Compliance Officer and must contain the following information:
1. A copy of the offering memorandum;
 2. Copies of correspondence with the issuer;
 3. Information relating to due-diligence performed by the Company;
 4. A copy of the executed escrow agreement executed with the issuer and its bank;
 5. A copy of Form D, if applicable;
 6. A copy of the selling agreement executed with the issuer; and'
 7. Copies of any selling agreements executed between the Company and any other FINRA registered broker/dealer.

PRIVATE OFFERINGS

"Private placement" refers to the offer and sale of securities not involving a public offering. Such offerings are not the subject of a registration statement filed with the SEC under the 1933 Act. Private placements are effected in reliance upon Sections 3(b) or 4(2) of the 1933 Act as construed or under Regulation D as promulgated by the SEC, or both. Regulation D, promulgated in 1982, sets forth certain guidelines for compliance with the Private Offering Exemption. Colorado Financial Service's personnel who are involved in the private placement process are expected to have a sound working knowledge of Regulation D and complete awareness of the firm's policy and procedure requirements relating to such offerings.

Private placements must meet either the requirement of Sections 3(b) or 4(2) of the 1933 Act as developed through SEC interpretation and court decisions or must follow the conditions set out under Regulation D of the 1933 Act. Persons claiming the exemption from the 1933 Act carry the burden of proving that its activities came within that exemption.

REGULATION D

Overview

Regulation D is a series of six rules, Rules 501-506, establishing three transactional exemptions from the registration requirements of the 1933 Act. Rules 501-503 set forth definitions, terms and conditions that apply generally throughout the Regulation. Specific exemptions are set out in Rules 504-506. Rule 504 applies to transactions in which no more than \$1,000,000 of securities are sold in any consecutive twelve-month period. Rule 504 imposes no ceiling on the number of investors, permits the payment of commissions, and imposes no restrictions on the manner of offering or resale of securities. Further, Rule 504 does not prescribe specific disclosure requirements. Generally, the intent of Rule 504 is to shift the obligation of regulating very small offerings to state "Blue Sky" administrators, though the offerings continue to be subject to federal anti-fraud provisions and civil liability provisions of the Exchange Act.

Rule 505 applies to transactions in which not more than \$5,000,000 of securities is sold in any consecutive twelve-month period. Sales to thirty-five "non-accredited" investors and to an unlimited number of accredited investors are permitted. An issuer under Rule 505 may not use any general solicitation or general advertising to sell its securities.

Rule 506 has no dollar limitation of the offering. Rule 506 is available to all issuers for offerings sold to not more than thirty-five non-accredited purchasers and an unlimited number of accredited investors. Rule 506, however, unlike 504 and 505, requires an issuer to make a subjective determination that at the time of acquisition of the investment each non-accredited purchaser meets a certain sophistication standard, either individually or in conjunction with a "Purchaser Representative." Like Rule 505, Rule 506 prohibits any general solicitation or general advertising.

"Accredited Investor" is defined in Rule 501(a). The principal categories of accredited investors are as follows:

1. Directors, executive officers, and general partners of the issuer, including general partners of general partners in two-tier syndications. (The term "executive officers" is more fully defined in the Regulation.) (2) Purchasers whose net worth either individually or jointly with their spouse equals or exceeds \$1 million. It is important to note that while there is no definition of "net worth" in Regulation D, there similarly is no requirement of liquidity in the calculation of net worth for this accreditation standard. Thus, a purchaser's home, furnishings, etc. are includable in the determination of net worth.
2. Natural person purchasers who have "income" in excess of \$200,000 in each of the two most recent years and who reasonably expect an income in excess of \$200,000 in current year (or

\$300,000, jointly with their spouse).

3. A business entity will be treated as a single accredited investor unless it was organized for the specific purpose of acquiring the securities offered, in which case each beneficial owner of the security is counted separately.

Compliance Considerations Under Regulation D

1. Regulation D does not exempt offerings from the anti-fraud and civil liability provisions of the various federal securities laws.
2. Further, Regulation D in no way relieves issuers of their obligation to furnish to investors whatever material information may be needed to make any required disclosures not misleading.
3. Similarly, notwithstanding exemption from registration at the federal level, Regulation D in no way obviates an issuer's obligation to comply with applicable state law.
4. Regulation D is interpreted as providing "transactional" exemptions to issuers only. An investor whose purchase was exempt from registration cannot resell his or her interest without establishing an independent basis of exemption.
5. The three exemptions are not intended to be mutually exclusive, that a reliance on one exemption is not deemed to be an election to the exclusion of any other applicable exemption.
6. Finally, the exemptions of Regulation D may not be claimed with respect to any plan or scheme to evade the registration provisions of the act.

Existing state securities regulations at times impose substantially more onerous limitations on issuers than Regulation D. Issuer's counsel must be consulted regarding the requirements of the securities law of each state in which an offering is going to be sold.

Form D

Notices, on Form D, are due within fifteen days after the first sale of securities in an offering under Regulation D. It will be prepared by Issuer's counsel. The designated principal shall obtain and review the Form D contemporaneously with the filing requirement and evidence such review in writing. This Form shall be maintained in files relating to the offering.

Private Placement Offering Memorandum ("PPM")

The designated principal shall carefully review the PPM to ensure that the disclosures regarding the nature, character and risk factors relating to an offering are adequate. While such review is not required to involve outside counsel, the involvement of outside counsel is required when a definitive determination cannot be made that the PPM disclosures and content conform to all applicable legal requirements. This is imperative because, if the PPM turns out to be materially misleading in terms of disclosures which have been made (or which should have been made), CFS and its principals may be deemed to have violated or aided or abetted violations of the anti-fraud provisions of the federal securities laws. Evidence of this review shall be documented in writing prior to any offers or sales.

Supplementary or Corrective Material

During the course of private placement activities on a particular issue, or prior to the closing, it may become necessary to update or correct information supplied in the private placement memorandum as originally prepared. The designated principal shall ensure that the corrected information is brought to the attention of the offerees by means of a cover or transmittal letter which describes the changes or additions. Depending upon the information transmitted, reconfirmation of an investors desire to invest may be required. The files maintained with respect to a particular offering must contain a record of what has been done. Prior to closing an offering, meaning the acceptance of investors in a transaction, the designated principal must verify that all such amendments have been sent to all subscribing offerees and that the files are accurate and complete.

Offeree Access To Information

In most private placement offering memoranda, it is therein stated that the memorandum has been prepared by counsel to the issuer (i.e., the corporation) from documents which have been provided by representatives of the issuer. Offerees are invited to meet with representatives of the issuer to make an independent investigation and verification of the matters disclosed in the offering memorandum. Courts, reviewing private placements when challenged, weigh investor access to underlying information about the transaction very heavily in the determination of whether there has been compliance with the private placement exemption. Colorado Financial Service's designated Principal shall obtain a commitment from the Issuer that potential purchasers and their representatives shall be given access to underlying information about the transaction if they desire to pursue such information. The fact that information is available to offerees should be specifically disclosed to the offerees at a conspicuous point in the offering documents.

PRIVATE PLACEMENT OFFERING PROCESS

Offering Commencement

The commencement date of private offerings is fixed generally at the date of the availability of the approved offering documents, for distribution to sales personnel. An "all or nothing" offering contains, by its terms, a fixed or defined date for the termination of the offering. A "best efforts" offering may have an indeterminate termination period meaning that the offering continues until the full number of Securities is placed and the subscribers are formally accepted by both the issuer (or a duly authorized representative) and by a Principal of the brokerage firm.

Important Requirements for Contingent Offerings – SEC Rules 15c2-4 and 10b-9

The designated principal shall review all offering terms and conditions in order to assess whether contingencies exist requiring the establishment of an escrow account with an independent bank. The federal securities law (the Exchange Act) is very specific with respect to the required treatment of an escrow account maintained in an "all or none" or "part or none" offering.

The rules applicable to "all or none" or "part or none" offerings relating to the maintenance of an escrow account for a given offering are Rules 10b-9 and 15c2-4 of the Securities Exchange Act of 1934. Rule 10b-9 requires, in general, that in an "all or none" or "part or none" offering (as opposed to a "best efforts" offering) monies paid for the purchase of securities must be returned to the investors if the specified number/dollar amount of securities is not sold within a specified time. In other words, the "all or none" or "part or none" offering requires specification of the number of securities and the time of the selling period. Both terms must be adhered to.

Rule 15c2-4 requires, in general, that the monies received from investors be deposited into a separate segregated bank account (Independent Bank as Escrow Agent) and held for the investors' benefit until the "all or none" or "part or none" terms have been complied with. If the terms of the offering are met, the money is to be transmitted to the issuer. If not, the monies are to be returned to subscribers.

The designated principal shall ensure that the following procedures are followed in the handling of escrow accounts for "all or none" or "part or none" transactions are as follows:

1. When an "all or none" or "part or none" offering is commenced, an escrow agreement shall be created in conformance with SEC and FINRA guidance and requirements. This document shall be executed by the bank and by Colorado Financial Service if Colorado Financial Service is serving in the capacity as sole or lead placement agent. If Colorado Financial Service is acting only a selling group participant, it shall request a copy of the executed escrow agreement to confirm its conformance with SEC and FINRA guidance and requirements relating to such agreement. Colorado Financial Service will retain a copy of all escrow agreements on file to demonstrate compliance with Rule 15c2-4.

2. An escrow account should be opened by the bank. The escrow account is governed by the escrow agreement. The account typically requires signatures of representatives of both the lead/sole placement agent and the Issuer before any checks can be issued from the account.
3. Colorado Financial Service shall ensure that customers' are directed to make their payments payable to the escrow agent/account. Incoming monies should be deposited immediately into the escrow account, along with the purchaser's name, address, social security number and number of shares/units. Colorado Financial Service shall record all customers' payments received and forwarded to the escrow agent on its Customer Funds Received and Forwarded blotter.
4. Upon the completion of the "all or none" or "part or none" terms of the agreement or upon the expiration of the specified time period, the escrow agent verifies that the terms of the escrow agreement have been or have not been met by the designated date and that the funds should be released from escrow. Colorado Financial Service will also confirm that escrowed funds are released to the issuer only in conformance with the terms of the offering and escrow agreement.
5. During the offering process, Colorado Financial Service, if acting as sole/lead placement agent, will obtain and review monthly escrow account bank statements and reconcile such statements to customers' transactions. Colorado Financial Service will also review such statements in determining that the minimum offering amount is achieved through bona fide sales prior to the release of funds to the issuer. If CFS is a selling group participant, it shall verify that the lead placement agent is discharging this responsibility.
6. The issuer then transmits written confirmation stating that a determination has been made that the conditions of the escrow have or have not been complied with and request a release of the funds. Upon receipt of the written confirmation described above, the funds are transmitted to the proper entity or persons. Colorado Financial Service will retain such written confirmation if it is acting as lead/sole placement agent.
7. All documentation created by these procedures, with evidence of the designated principal's review, shall be retained in a segregated file for audit or regulatory review.

Possible Need for a Purchaser Representative

A judgment must be made as to the business sophistication of a purchaser. If it is determined that a particular purchaser is not sufficiently sophisticated in business matters to effectively evaluate the investment opportunity, then the designated principal must ensure that such person(s) are assisted by a "purchaser representative," i.e., a person possessing the requisite sophistication (chosen by the purchaser) who is able to and does assist in evaluating the investment opportunity and who is not an affiliate of the issuer, not the brokerage firm. Also, State Blue Sky laws impose additional requirements for their investors. Only customers known to registered representative personally should be sent only brokerage firm approved offering materials. If there is doubt about the individual's need for a purchaser representative, the subscriber should be required to obtain one.

No General Solicitation

In order to ensure conformance with the Regulation D requirement which prohibits general solicitation, the firm has adopted the following policies and procedures:

1. All solicitations which are not directly targeted only at the firm's pre-existing customers must be generic in nature and may not make reference to any specific investment.
2. Colorado Financial Service, the issuer and its affiliates must implement procedures designed to insure that the person solicited are not offered any securities that were offered or contemplated for offering at the time of the solicitation.
3. Prior to offering a new client an investment in a Reg D TIC offering, the Colorado Financial Service representative shall insure that the client has been qualified as an accredited investor,

shall record such qualification data and the date received, and shall insure that no existing TIC offering was the intent of the solicitation.

4. Offers are not made to persons responding to generic solicitations until after Colorado Financial Service establishes a substantive relationship with the person. A substantive relationship is established with a person when the issuer or its affiliates, based upon information sufficient to evaluate the prospective offeree's sophistication and financial circumstances, qualifies the person as an offeree.
5. Cold Calling is not permitted.
6. Advertisements, articles, notices or any other communication cannot be published in any newspaper, magazine, newsletter or similar media or broadcast on TV, radio or cable.
7. No seminars or meetings may be held with regard to any current offering unless each invitee is known and qualified in advance.
8. No mention of any specific offering or past performance may be made at generic seminars (i.e. seminars to discuss the general concept of such investments).

No Fee Sharing

Fees may not be split with non-registered persons such as lawyers, accountants or investment advisers.

Investment Intent

Purchasers of private placement securities must purchase for investment purposes and not for the purpose of resale. The typical subscription documents used in private placements contains what is called "investment letter language." This representation should be personally verified. Consideration should be given as to whether the investment representation makes sense in view of the surrounding circumstances of the proposed purchaser.

Oral Representations

Offerees, having received private placement offering documents, frequently request oral explanations or supplements to the information presented. Great care should be taken in making oral disclosures regarding a private placement. Deviation from the printed material is prohibited. Written notes of conversations with offerees (and their representatives) should be made, dated and placed in the client's file.

Acceptance Of Offerees As Purchasers

In all private placement offerings, the subscribers must be formally accepted by the issuer. The acceptance of subscribers is based upon a subscriber questionnaire and, possibly, the customer's account information (a document signed by the client). The designated principal shall conduct and evidence review of the customer's subscription agreement in relation to all other suitability-related information obtained from such customer. To the extent that the subscription documentation does not include all of the information required from customers as set forth in the New Account section of this manual, such supplemental information must be obtained. Following the acceptance of the subscribers in an offering by both the issuer and the principal, the offering shall be terminated by notification to all involved sales persons or entities.

Recordkeeping and Mechanics of Offering Process

The designated principal shall ensure:

1. The offering documents should be numbered. Unnumbered copies should be marked "For Information Only", "File Copy" and other appropriate notation.
2. A distribution control sheet will be created, and monitored. As offering documents are assigned to particular registered representatives, the number of the offering documents, together with the registered representative's name, should be placed on the control sheet.

3. A sales control sheet will be maintained reflecting current sales.
4. Incoming checks, subscription agreements, and executed suitability documents will be logged on the Customer Funds Received and Forwarded blotter and trade blotter on a daily basis.
5. Checks should be reviewed for acceptability by the firm, recorded on the brokerage firm's receipts blotter, and forwarded to the individual bank escrow agent, and where appropriate to the Issuer, together with the purchaser's name, address, social security number, and number of shares/units.
6. Incoming subscription agreements should be approved by the firm, recorded on the sales blotter and forwarded to the Issuer for acceptance. A copy must be maintained for the brokerage firm files.
7. Confirmations should be sent immediately to the subscriber upon acceptance, to the registered representatives, and a file copy should be retained (e.g. a copy of the Subscription Documents.)
8. Form D will be filed, on a timely basis, by counsel to the Issuer, with the SEC and with those states that require it.
9. Care should be taken that any other forms necessary to comply with the state Blue Sky authorities will be timely filed. Counsel to the issuer or brokerage firm counsel should generally be consulted as to the required forms in the states where the securities have been sold. Generally, this is accomplished by counsel to the issuer. (Some states require no forms.)
10. A complete file containing the above-described documents for each private placement should be maintained as part of the brokerage firm's records.

PRIVATE PLACEMENTS OUTSIDE OF REGULATION D

The basic requirements which a private placement must meet in accordance with the (4) (2) exemption from federal registration are summarized as follows:

1. All the offerees and purchasers must have access to the same kind of information concerning the issuer which would appear in an SEC registration statement, and these persons must be able to comprehend and evaluate such information. It must be kept in mind that any offer to an offeree who would not qualify, as well as a sale to a purchaser who would not qualify, may destroy the private placement exemption and result in a violation of Section 5 of the 1933 Act.
2. The issuer and any parties acting for the issuer, including the broker-dealer, must take all reasonable steps to insure that the information given to the offerees and purchasers is complete and accurate. This is "due diligence." All information passed on in the course of the private placement, either orally or by memorandum (or offering circular), is subject to the anti-fraud provisions of the federal securities laws. The fact that the offering memorandum is not reviewed by the SEC does not lower the standards for accuracy which would be applicable to any registered offering.
3. All of the offerees must have access to meaningful current information concerning the issuer. The fact that an offeree has considerable financial resources or is a lawyer, accountant or businessperson, and thus may be considered sophisticated, does not eliminate the need for appropriate information to be made available.
4. While there is no specific limitation on the number of offerees, the greater the number of offerees, the greater the likelihood that the offering will not qualify for the exemption. In this connection, a private placement cannot be the subject of advertising, general promotional seminars or public meetings in connection with the offering. This limitation does not preclude meeting with offerees to discuss the terms of the offer or to present information concerning the issuer or the offer. After the private placement has been completed, a general announcement (such as a tombstone ad) concerning it may be made if this is desired.

5. Purchasers in a private placement must acquire the securities for investment and not for the purpose of further distribution. If the purchaser acts in such a manner so as to participate in distribution of the securities to the public, either directly or indirectly as a link between the issuer and the public, he or she will be deemed to be an underwriter and the selling broker-dealer and other participants in the distribution, including the issuer, will be in violation of Section 5 of the 1933 Act. Each of the purchasers must intend to acquire for investment at the time the securities are purchased. Whether or not investment intent was present will be determined from all the circumstances surrounding the acquisition. Such circumstances would include the financial capability of the purchaser to hold the securities for the long term and whether the purchaser signed a letter of investment intent. The amount of time the securities have been held (the holding period) is one of the factors in a hindsight determination that an investment intent existed at the time of purchase. A two-year holding period is deemed to be the bare minimum.

Colorado Financial Service will not engage in private placements for which only the (4)(2) exemption is to be exclusively relied upon without the offering's demonstrable conformance with Regulation D unless the above requirements are fully satisfied, and unless the offering's exemption under (4)(2) is validated through communications with legal counsel. The designated principal shall retain documentation sufficient to demonstrate conformance with the above.

1031 TENANTS IN COMMON EXCHANGES

CFSC does not currently sale 1031 TICs. However in the event that in the future we do sale them, the following rules will apply.

The following policies and procedures address Section 1031 tax-deferred exchanges of real property for certain tenants-in-common interests in real property offerings which are deemed securities (“TIC interests” or “TICs”). As TIC interests are a non-conventional investments, it is important that Colorado Financial Service’s policies and procedures adequately address the following responsibilities:

- conduct appropriate due diligence;
- perform a reasonable-basis suitability analysis;
- perform customer specific suitability analysis for recommended transactions;
- ensure that promotional materials used by Colorado Financial Service are fair, accurate, and balanced;
- implement appropriate internal controls; and
- provide appropriate training to registered persons involved in the sale of these products.

TIC SUITABILITY

RR’s are prohibited from offering/selling a TIC unless:

- the TIC has been approved by Colorado Financial Service;
- the RR has thoroughly reviewed and understands the customer’s financial status, tax status, investment objectives, risk tolerance, and liquidity needs;
- the RR has thoroughly reviewed the offering memorandum and all other disclosure documents and understands all material risks and negative features associated with the TIC;
- the TIC is suitable for the customer.

In addition to the foregoing and Colorado Financial Service’s general policies and procedures relating to suitability set forth in this manual, transactions involving TICs are subject to additional requirements. Before recommending a TIC exchange, RR’s must have a clear understanding of the investment goals and current financial status of the investor. This is particularly important because, in many cases, a TIC interest will constitute a significant portion of an investor’s total assets. Consequently, RR’s must, with respect to each customer for whom they make a recommendation, consider the risks from over-concentration against the benefits of tax deferral and the investment potential of the underlying real estate asset(s). Furthermore, all RR’s must consider the illiquid nature of a TIC in determining suitability because TICs may require unanimous consent to sell a TIC interest and any subsequent sale may only be possible at a significant discount to the net asset value of the undivided interest in the real estate.

RR’s must also consider whether the fees and expenses outweigh the potential tax benefits to the customer. TICs structured with high up-front fees and expenses raise particular concerns about the ability to make a suitable recommendation. In addition, TIC transactions in many cases may not provide complete tax-free exchanges for investors (e.g., in situations where the investor’s debt ratio on the replacement property decreases, the difference may result in a taxable event for the investor). RR’s must take all of these factors into consideration when recommending a particular TIC.

TIC DUE DILIGENCE

In addition to Colorado Financial Service's general policies and procedures relating to due diligence involving offerings of securities, TICs are subject to the following additional requirements.

CFS shall not approve a TIC for offer/sale unless it has thoroughly reviewed all offering-related documents and performed independent investigation or verification when it is not reasonable to simply rely on representations made by the sponsor in an offering document. Such investigation may include background checks of the sponsor's principals, review of the agreements (e.g., property management, purchase and sale, lease and loan agreements) and property inspection. In addition, if the offering document contains projections, CFS should understand the basis for those projections and consider their reasonableness

TIC sponsors routinely obtain legal opinions regarding whether a particular TICs offering structure will qualify as a like-kind exchange of real property under Section 1031. Given the importance of that tax treatment, the President (or designee) shall endeavor to obtain a "clean" legal opinion that a TIC "should" or "will" qualify for exchange under Section 1031. If a sponsor cannot provide a legal opinion, or can provide only a "more likely than not" opinion, the President, or designee, shall consider this as a material fact in determining whether the TIC should be approved for sale. In such a case, responsible principal must ascertain the specific tax status risks of the TIC and ensure that such risks are disclosed to prospective investors.

Colorado Financial Service's due diligence review must also consider whether the fees and expenses associated with the program are reasonable. If not, the program may not be approved for sale.

TIC PAYMENT OF REFERRAL FEES

All personnel involved in TIC transactions are responsible for ensuring that CFS does not pay, directly or indirectly, any real estate agent who is not registered with CFS and/or is not registered as a broker-dealer for participating in, or referring, TIC business. All TIC-related payments made by Colorado Financial Service are required to be brought to the attention of the President if they are being directed to an unregistered person, or otherwise raise questions as to whether transaction-based compensation is directed to unregistered persons/entities.

TIC LICENSING AND REGISTRATION

All TICs structured as DPP's can be sold only by persons having passed the Series 7 or 22 (Limited Representative — Direct Participation Program securities) exam.

TIC TRAINING

All designated supervisors are required to determine whether RRs are sufficiently experienced and trained with respect to TIC transactions permitting such persons to offer and sell TICs. To the extent that additional training is deemed necessary, the designated supervisor shall oversee the implementation of necessary training and shall document all training provided.

TIC SUPERVISION

All TIC transactions must be reviewed and endorsed by the RR's designated supervisor who shall be qualified as a general securities or DPP principal. No transactions shall be approved unless they comply with the firm's policies and procedures relating to TICs and private placements (if applicable).

TIC RECORDKEEPING

The President, or designee, shall ensure that the firm's recordkeeping system is adequate to provide reasonable assurance that all records involving TICs are prepared and retained in accordance with FINRA 3110 and SEC Rules 17a-3 and 17a-4.

TIC COMPLIANCE WITH REGISTRATION EXEMPTIONS

All of Colorado Financial Service's personnel involved in TIC transactions are required to know and understand their duties and responsibilities in order to ensure that unregistered TICs are offered and sold in accordance with claimed exemptions from registrations, and in accordance with Colorado Financial Service's policies and procedures involving private placements.

Colorado Financial Service prohibits all personnel from engaging in any form of general solicitation of TIC offerings. The following two examples have been provided by FINRA to help clarify impermissible and permissible solicitations:

In the first scenario, a registered representative who also holds a real estate license solicits potential investors by advertising a "real estate" seminar. At the seminar, investors are given a presentation on TIC exchanges and are made aware that the member offers TIC investments to its customers. Since the advertisement for the seminar would be a general solicitation, and since the references to the TIC investments currently being offered by members would be deemed an offer of those securities, the members engaged in such offerings would not be able to rely on the exemption from registration for private placements under Regulation D.

In the second scenario, a member or RR places advertisements in newspapers and magazines that indicate that the member sells TIC interests, but the advertisements do not identify any particular TIC investment for sale by the member. Since the advertisement itself is a general solicitation, the issue for members is whether the advertisement includes an offer of securities. In general, such an advertisement would not be deemed an offer of securities if:

- the advertisement is generic;
- the advertisement is not being made in contemplation of an offering; and
- the member has procedures to ensure that an investor solicited via the advertisement will not be offered TICs that the member is currently offering or contemplating offering at the time of the initial contact.

Colorado Financial Service prohibits advertisements that do not meet each of the above. Moreover, the other requirements under Regulation D also must be met, including establishing an adequate, substantive and pre-existing relationship with the investor and completing a suitability analysis prior to offering TICs to an investor.

MUNICIPAL SECURITIES

Municipal securities regulations are promulgated by MSRB and enforced by other both federal regulators and other SRO's (e.g., FINRA, NYSE). To the extent that MSRB rules parallel the requirements of federal or other SRO's rules for which Colorado Financial Service has adopted procedural standards (e.g., supervision and approval requirements, transactions by associated persons, books and records, etc.), Colorado Financial Service's policies and procedures apply to both municipal and non-municipal securities transactions and activities.

MSRB ASSESSMENTS AND FEES – MSRB RULES A-13/A-14

The financial and operational principal or designee will determine the amount of each required assessment or fee, including underwriting assessments, annual fees, etc., and mail the assessment to the MSRB within the time frames specified by MSRB.

MUNICIPAL PRINCIPAL RESPONSIBILITIES

The Municipal Securities Principal shall be responsible for monitoring all municipal securities activities for compliance applicable MSRB Rules and Colorado Financial Service policies and procedures. Such responsibilities shall include, but are not limited to, the following:

- Verifying the proper opening of each municipal securities account, reviewing transaction in such and correspondence pertaining to the solicitation or execution of same, and promptly endorsing the above documents in writing.
- Checking customer accounts regularly and frequently to detect irregularities and abuses and endorsing such reviews in writing;
- Whenever a customer is known to be employed by another broker/dealer or municipal securities dealer, communicating this fact to the person responsible for mailing the required notification letter;
- Reviewing and approving, in writing, all municipal securities advertisements and retaining the documentation in Colorado Financial Service's central advertising file;
- Maintaining a copy of the MSRB Manual in the main office and any branch office where municipal securities dealer activities are conducted;
- Complying with all other regulatory requirements, policies and procedures, as applicable.

CLASSIFICATION AND REGISTRATION - MSRB RULE G-2/3

The designated municipal principal is responsible for ensuring that Colorado Financial Service and its associated persons do not induce or attempt to induce the purchase or sale of, any municipal security unless Colorado Financial Service and every applicable associated person is qualified in accordance with the rules of the Board. Any person who first becomes associated with a municipal securities broker in a Representative capacity without having previously qualified as a Municipal Securities Representative ("MSR") or a General Securities Representative may not: (a) transact municipal securities business with any member of the public, including institutional customers, for at least 90 days from the first day of training; or (b) be compensated for transactions in municipal securities during such 90-day periods. These restrictions apply regardless of whether that person has passed one of these exams. Such an individual can, however, engage in other types of municipal securities activities (for example, municipal securities research for up to 180 days without having satisfied the examination requirements.

DISQUALIFICATION - MSRB RULE G-4

Officers or employees who are associated with Colorado Financial Service's securities business and related activities shall be disqualified immediately from such association when expulsion or suspension from membership or participation in a national securities exchange or registered securities association occurs (i) for violation of any rules of such exchange or association which prohibit, require, or omit any act or transaction constituting conduct inconsistent with just equitable principles of trade, (ii) by reason of any statutory disqualification of character, or (iii) when other disciplinary action taken would affect the associated person's involvement in securities business and related activities.

ACTS OF CONTRAVENTION - MSRB RULE G-5

In the conduct and effectuate of its securities business and securities activities, Colorado Financial Service and its associated persons shall not:

- Effect any transaction in, or induce or attempt to induce the purchase or sale of, any security in contravention of any effective restrictions imposed upon by the Securities Exchange Commission, by an appropriate regulatory agency, by a registered securities association, or state and local laws; and
- Effect any transaction in, or induce or attempt to induce the purchase or sale of, any security, or otherwise act in contravention of or fail to act in accordance with rules adopted by registered securities associations as of April 3, 1984, pertaining to remedial activities of those members experiencing financial or operational difficulties, if such remedial activities were applicable to Colorado Financial Service.

INFORMATION CONCERNING ASSOCIATED PERSONS – MSRB RULE G-7

The information required by this rule relates to the history of employment and professional background including any disciplinary sanctions of the prospective municipal securities employee. The U-4 Form is the source document which all associated persons must complete in order to fulfill the information requirements of MSRB Rule G-7.

Municipal securities personnel include any of the following:

- municipal securities principal;
- municipal securities sales principal;
- financial and operations principal; and
- municipal securities representative.

A Form U-4 shall be completed by all applicants who have been classified as associated persons engaged in municipal activities requiring registration. The designated principal shall ensure that all associated persons complete a U-4 application. The designated principal shall review all Form U-4 applications for completeness and accuracy.

The designated principal shall conduct a background check of the associated person's employers for the preceding 3 year period. The intent of such background check is to verify the accuracy of certain information provided and inquire as to the associated person's record and reputation as related to the person's ability to perform his/her duties.

BOOKS AND RECORDS - MSRB RULE G-8/G-9

Colorado Financial Service is deemed to be in compliance with the books and records requirements of MSRB Rules by making and maintaining its records in accordance with SEC Rules 17a-3 and 17a-4 with the exception of MSRB Rules G-8(a)(iv)(D), (a)(viii), and (a)(xi) through (xxii). The designated municipal books and records principal shall be responsible for ensuring all required records are created and retained as required by these Rules.

MSRB Rule G-8(xi) – Customer Account Information

The designated principal shall ensure that the firm's Customer Account Information includes a record for each customer, other than an institutional account, setting forth the following information to the extent applicable to such customer:

- (A) customer's name and residence or principal business address;
- (B) whether customer is of legal age;
- (C) tax identification or social security number;
- (D) occupation;
- (E) name and address of employer;
- (F) information about the customer used pursuant to rule G-19(c)(ii) in making recommendations to the customer. For non-institutional accounts, all data obtained pursuant to rule G-19(b) shall be recorded.
- (G) name and address of beneficial owner or owners of such account if other than the customer and transactions are to be confirmed to such owner or owners;
- (H) signature of municipal securities representative, general securities representative or limited representative – investment company and variable contracts products introducing the account and signature of a municipal securities principal, municipal securities sales principal or general securities principal indicating acceptance of the account;
- (I) with respect to discretionary accounts, customer's written authorization to exercise discretionary power or authority with respect to the account, written approval of municipal securities principal or municipal securities sales principal who supervises the account, and written approval of municipal securities principal or municipal securities sales principal with respect to each transaction in the account, indicating the time and date of approval;
- (J) whether customer is employed by another broker, dealer or municipal securities dealer; and
- (K) in connection with the hypothecation of the customer's securities, the written authorization of, or the notice provided to, the customer in accordance with Commission rules 8c-1 and 15c2-1.
- (L) with respect to official communications, customer's written authorization, if any, that the customer does not object to the disclosure of its name, security position(s) and contact information to a party identified in G-15(g)(iii)(A)(1) for purposes of transmitting official communications under G-15(g).
- (M) Pre-dispute Arbitration Agreements with Customers.

- (1) Any pre-dispute arbitration clause shall be highlighted and shall be immediately preceded by the following language in outline form:

This agreement contains a pre-dispute arbitration clause. By signing an arbitration agreement the parties agree as follows:

- (a) All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.
 - (b) Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.
 - (c) The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.
 - (d) The arbitrators do not have to explain the reason(s) for their award.
 - (e) The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.
 - (f) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.
 - (g) The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.
- (2) (a) In any agreement containing a pre-dispute arbitration agreement, there shall be a highlighted statement immediately preceding any signature line or other place for indicating agreement that states that the agreement contains a pre-dispute arbitration clause. The statement shall also indicate at what page and paragraph the arbitration clause is located.
 - (b) With thirty days of signing, a copy of the agreement containing any such clause shall be given to the customer who shall acknowledge receipt thereof on the agreement or on a separate document.
- (3) (a) A broker, dealer or municipal securities dealer shall provide a customer with a copy of any pre-dispute arbitration clause or customer agreement executed between the customer and the broker, dealer or municipal securities dealer, or inform the customer that the broker, dealer or municipal securities dealer does not have a copy thereof, within ten business days of receipt of the customer's request. If a customer requests such a copy before the broker, dealer or municipal securities dealer has provided the customer with a copy pursuant to subparagraph (2)(b) above, the broker, dealer or municipal securities dealer must provide a copy to the customer by the earlier date required by this subparagraph (3)(a) or by subparagraph (2)(b) above.
 - (b) Upon request by a customer, a broker, dealer or municipal securities dealer shall provide the customer with the names of, and information on how to contact or obtain the rules of, all arbitration forums in which a claim may be filed under the agreement.
- (4) No pre-dispute arbitration agreement shall include any condition that: (i) limits or

contradicts the rules of any self-regulatory organization; (ii) limits the ability of a party to file any claim in arbitration; (iii) limits the ability of a party to file any claim in court permitted to be filed in court under the rules of the forums in which a claim may be filed under the agreement; (iv) limits the ability of arbitrators to make any award.

- (5) If a customer files a complaint in court against a broker, dealer or municipal securities dealer that contains claims that are subject to arbitration pursuant to a pre-dispute arbitration agreement between the broker, dealer or municipal securities dealer and the customer, the broker, dealer or municipal securities dealer may seek to compel arbitration of the claims that are subject to arbitration. If the broker, dealer or municipal securities dealer seeks to compel arbitration of such claims, the broker, dealer or municipal securities dealer must agree to arbitrate all of the claims contained in the complaint if the customer so requests.
- (6) All agreements shall include a statement that “No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; or (ii) the class is decertified; or (iii) the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein.”
- (7) These provisions of Rule G-8(a)(xi)(M) are effective as of May 1, 2005.

For purposes of this subparagraph, the terms “general securities representative,” “general securities principal” and “limited representative – investment company and variable contracts products” shall mean such persons as so defined by the rules of a national securities exchange or registered securities association. For purposes of this subparagraph, the term “institutional account” shall mean the account of (i) a bank, savings and loan association, insurance company, or registered investment company; (ii) an investment adviser registered either with the Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or (iii) any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million. Anything in this subparagraph to the contrary notwithstanding, every broker, dealer and municipal securities dealer shall maintain a record of the information required by items (A), (C), (F), (H), (I) and (K) of this subparagraph with respect to each customer which is an institutional account.

DELIVERY OF INVESTOR BROCHURE - MSRB RULE G-10

Upon the receipt of any complaint, as defined by MSRB Rule G-8(a)(xii), all representatives must forward the complaint to the designated supervisory principal, who shall forward it to the designated municipal principal. The designated municipal principal shall ensure that the complaining customer is provided with the MSRB’s investor brochure promptly, and is responsible for documenting the brochure delivery.

SUITABILITY OF MUNICIPAL RECOMMENDATIONS - MSRB RULE G-19

Colorado Financial Service and its associated persons shall obtain, at or before the completion of a transaction with or for the account of a customer, a record of required information:

- Prior to recommending purchase, sell or exchange of a security, adequate knowledge of the customer's financial background, tax status, investment objectives and other relevant information shall be acquired and documented;
- No recommendation to purchase, sell or exchange a security shall be made to a customer, unless

moderate inquiry provides (i) reasonable grounds, based upon information available from the issuer of the security or otherwise, for recommending a purchase, sale or other transaction in the security, and (ii) reasonable grounds to believe that the recommendation is suitable for such customer; (or) (iii) no reasonable ground to believe that recommendation is unsuitable for such customer if all such information is not furnished or known;

- Neither Colorado Financial Service nor its associated persons shall effect securities transaction with or for a discretionary account; and
- Neither Colorado Financial Service nor its associated persons shall recommend transactions in securities to a customer, or effect such transactions or cause such transactions to be effected, that are excessive in size or frequency (i.e., “churning”) in view of known information concerning the customer's financial background, tax status, and investment objectives.

GIFTS AND GRATUITIES - MSRB RULE G-20

Colorado Financial Service shall not, directly or indirectly, give or permit to be given any thing or service of value, including gratuities, in excess of \$100 per year to a person other than an employee or partner of such broker, dealer or municipal securities dealer, if such payments or services are in relation to the municipal securities activities of the employer of the recipient of the payment or service. For purposes of this rule the term "employer" shall include a principal for whom the recipient of a payment or service is acting as agent or representative. All associated persons involved in making such payments must advise the CCO in advance and the CCO shall ensure that the payments are logged to the firm's Gift and Gratuity Log and do not exceed the proscribed amount. The log shall include:

- identities of persons giving and receiving the payment;
- amount of payment;
- date of payment; and,
- reason/purpose.

ADVERTISING - MSRB RULE G-21

The term "advertisement" means any material (other than listings of offerings) published or designed for use in the public, including electronic, media, or any promotional literature designed for dissemination to the public, including any notice, circular, report, market letter, form letter, telemarketing script or reprint or excerpt of the foregoing. The term does not apply to preliminary official statements or official statements, but does apply to abstracts or summaries of official statements, offering circulars and other such similar documents prepared by brokers, dealers or municipal securities dealers.

A securities professional is prohibited from making material misrepresentations or misleading omissions concerning the facilities, services or skills of a municipal securities dealer. A municipal securities professional is also prohibited from publishing an advertisement or causing an advertisement to be published concerning municipal securities that he knows or has reason to know is materially false or misleading. All advertisements for new issue municipal securities shall be subject to the following requirements:

- A syndicate or member thereof may publish the initial re-offering terms even if the re-offering terms have changed provided that the sale date is indicated in the advertisement. (The date of sale for a competitive sale is defined as the date on which bids are required to be submitted to an issuer and for negotiated sales, the date on which a contract to purchase securities from an issuer is executed.)
- If the yield or price of any securities shown in an advertisement differs from the initial re-offering terms for the securities, the advertisement must reflect the actual prices or yields at the time the advertisement is submitted for publication.

- In both situations, a statement that the securities may no longer be available from the syndicate at the time of publication or may be available at a different price or yield must also be included.
- Each advertisement subject to the requirements of this rule must be approved in writing by the designated municipal securities principal before it is first used and requires the principal or dealer to keep in a separate file records of all such advertisements. The designated principal shall approve or disapprove each item in writing and maintain the material in a separate file and retain all advertising in accordance with MSRB Rule G-9 and/or SEC Rule 17a-4.

Municipal Fund Security Advertisements:

529 plan securities are subject to additional advertising and disclosure requirements pursuant to MSRB Rule G-21. The designated municipal principal shall not approve any 529 advertising without first consulting MSRB Rule G-21 and determining that all additional requirements have been satisfied.

IMPROPER USE OF ASSETS - MSRB RULE G-25

Colorado Financial Service and its associated persons shall not:

- Share, directly or indirectly, in the profits or losses of (i) an account of a customer carried or introduced by Colorado Financial Service when securities are held or are purchased or sold or (ii) a transaction in securities with or for a customer;
- Guarantee, or offer to guarantee, a customer against loss in (i) an account carried or introduced by Colorado Financial Service when securities are held or purchased, sold or exchanged or (ii) transaction in securities with or for a customer.

Put options and repurchase agreements shall not be guaranties against loss if their terms are provided in writing to the customer with or on confirmation of the transaction and recorded in accordance with MSRB Rule G-8.

Periodically, and no less than annually, the CCO shall perform testing to ensure compliance with applicable laws, regulations, rules, and with adopted policies and procedures in order to detect abuses, if any, of the improper use of securities or funds received by Colorado Financial Service on behalf of another person.

NEW ACCOUNTS

All sales representatives are required by sound business practices, and by law, to know their customers. A new account must be opened by the salesperson in conformance with the procedures and information requirements stipulated in the "Opening New Accounts" chapter of this manual.

SUPERVISION - MSRB RULE G-27

Colorado Financial Service has designated municipal securities principals to supervise its municipal activities (see Appendix) and has established written supervisory procedures to ensure compliance with applicable MSRB rules and regulations. The written procedures shall provide for:

- The designation of at least one principal to supervise the activities of the business unit and each branch office.
- Prompt review and written approval by the designated principals of each new customer account opened, each transaction, all written customer complaints and all correspondence related to solicitation or execution of municipal securities transactions, and any other matter required by the Board to be reviewed or approved by a principal.

- Regular and frequent examination by the designated principals of customer accounts to detect and prevent irregularities and abuses.
- The designation of one principal to supervise the maintenance and preservation of the books and records as specified by M.S.R.B. Rules G-8 and G-9.
- The on-going development and implementation of a compliance program.
- All designated principals shall maintain written procedures, supervisory and otherwise, which are reasonably designed to ensure the conduct of its municipal securities business are in compliance with relevant rules, policies and guidelines.
- The CCO shall oversee the updating of existing policies and procedures and the development of new policies and procedures as necessary and prompted by independent compliance reviews and analysis of new regulations and legislation. Recommendations for changes and additions to policy and procedures shall be communicated to the President.
- All principals and their related responsibilities shall be so designated on a written record and maintained in compliance with MSRB Rule G-9.
- The Compliance Officer shall review, at least annually, Colorado Financial Service's supervisory system, its compliance with all relevant rules, policies and guidelines, and its written policies and procedures to ensure they are adequate and up-to-date.

POLITICAL CONTRIBUTIONS – MSRB RULES G-37/G-38

This rule was adapted in order to reduce conflicts of interest, in the awarding of municipal securities business to dealers. Effective in 1994, the rule states that if a broker/dealer or a municipal finance professional (MFP) associated with the dealer makes a political contribution to an official of an issuer of municipal securities, the broker/dealer will be prohibited from conducting any negotiated municipal securities business with that issuer for a period of two years. This would also apply to any contributions made by a political action committee that was controlled by a dealer or a municipal finance professional.

CSFC has currently filed for exemption to filings due to the fact that we limit our activity in municipals to 529 plans. If we to start to sell other municipal securities the following will apply.

Every Municipal Finance Professional shall be obligated to have done the following:

1. Reviewed the Firm's Policies and Procedures relative to political contributions;
2. Certified compliance therewith on a quarterly basis; and
3. Complied with record keeping and disclosure requirements set forth in these procedures.

The Firm and all of its MFP's are hereby prohibited from:

1. Soliciting any person or Firm controlled political action committee (PAC) to make any political contribution;
2. Coordinating any contributions to Officials of an Issuer with which the Firm conducts business;
3. Engaging in or seeking to engage in Municipal Securities Business without pre-clearance; and
4. Making a contribution unless the MFP has gone through the pre-clearance process. Accordingly, all political contributions by MFP's of the Firm are subject to a pre-clearance process.

In order to better understand MSRB Rule G-37, some of the terminology used by the MSRB should be clarified.

Municipal Finance Professional

The following individuals are deemed to be Municipal Finance Professional (MFP):

1. All members of the Municipal Bond and Municipal/Public Finance Department including, without limitation, analysts (other than clerical and secretarial staff), underwriters, originators, investment bankers (regardless of seniority or office held) and municipal research professional;
2. All professional employees of the municipal bond Department performing sales and trading activities;
3. The Firm's executive or management committee, and all similarly situated officials of the dealer (or any corporate parent or affiliate) involved with Municipal Securities Business or transactions (such individuals may also be referred to as "Restricted Persons"; and
4. Any associated persons of the dealer with an economic interest in the award of Municipal Securities business and who may be in a position to make political contributions for the purpose of influencing the awarding of such business by Officials of an Issuer. Note: retail sales persons that are not in the Municipal bond Department are no necessarily included within the definition of the term "Municipal Finance Professional".

Solicitation Restriction

The Firm and all MFP's are also prohibited, directly or indirectly, through or by any other person or means, from doing any act, which would result in violation of sections (b) through (e) of Rule G-37. Parties subject to rule G-37 may not use other persons or entities as "conducts" to circumvent the Rule. The Firm may be prohibited from engaging in Municipal Securities Business with an Issuer if it or any MFP "solicits" the making of political contributions to Officials of such Issuers or "coordinates" such contributions.

Disclosure Reports

The Firm is also required under Rule G-8 (a) (xvi) to make reports on contributions and to maintain required books and records relating thereto.

The Firm is required to maintain records of corporate, individual and PAC contributions, as well as to maintain records regarding compensation or other arrangements with all parties hired into the Municipal Securities Business.

Prohibition on Political Contributions

Municipal Finance Professionals (MFP) have a \$250.00 contribution per election de minimus exemption from G-37 prohibition provided that the contribution is made only to a candidate or elected official who is eligible to vote.

Rule G-37 does not prohibit or regulate personal volunteer work by an MFP so long as the MFP neither utilizes the Firm's resources, incurs expenses paid by the Firm, nor participates in any fund raising activities. However the Firm requires MFP's to "pre-clear" such activities in advance in order to assure compliance with the Rule and prevent conflicts of interest.

All political contributions must be approved and reported to the Firm's CCO. The Firm is required to maintain such reports and report such contributions.

In addition, no MFP shall be involved, in any way in soliciting or "bundling" political contributions in any amount from other employees outside vendors, consultants or experts, regardless of electoral jurisdiction.

The prohibition on "indirect" contributions to certain Officials of an Issuer in order to influence the awarding of Municipal Securities Business would cover and prohibit payments made at the direction of a MFP by (a)

any spouse or family member of the Municipal Finance Professional or (b) any consultant, attorney, vendor or outside expert retained on behalf of the “Firm. Municipal Finance Professionals must also recognize that other types of payments to issuers are subject to Rule G-20, Gifts and Gratuities.

Overview of Supervisory Procedures

Prevention of MSRB Rule G-37 violations shall be the responsibility of the Firm’s Municipal Securities Principal and can be assured by the following procedures:

1. Promptly reviewing and either approving or rejecting verbal or written requests for pre-clearance for political contributions by Municipal Finance Professionals or Executive Officers;
2. Pre-clearance shall include the review of forms, reports and other necessary documents or appropriate information by representatives of the firm;
3. Preparing necessary reports to Firm management that comply with the Firm’s policies and procedures;
4. Submitting Quarterly Reports to the MSRB on Form G-37, in accordance with the Rule’s filing procedures and in the prescribed format. The Quarterly Report shall include (I) a list of Issuers with which the Firm has engaged in Municipal Securities Business during the reporting period (ii) type of business and (iii) name, company, role and compensation arrangement of any person employed by the Firm to obtain/retain Municipal Securities Business with such Issuers;
5. Maintaining and preserving records concerning political contributions made by the Firm and any firm-controlled PAC to officials of Issuers and political parties;
6. Restricting access to Firm records of Municipal Finance Professionals, and any restricted persons, and departmental data bases and files relating to requests for pre-clearance of political contributions to those having a legitimate “need to know,” and ensuring that legitimate rights to privacy and confidentiality are protected in a manner consistent with the Firm’s obligations under any applicable laws, rules and regulation; and;
7. Acknowledging that the Firm’s Municipal Finance Professional and other covered employees are following the firm’s policy and procedures.

Disclosure Requirement and Pre-Clearance of Contributions

All Municipal Finance Professionals (MFP) and executive Officers who wish to make or have been solicited to make a Political Contribution (other charitable contributions) shall complete a “Political Contribution Request Form” and forward it to the CCO for “pre-clearance.” No contributions may be made prior to the completion of the Form and receipt of an approval of the request form from the Compliance Department.

All requests for pre-clearance of contributions shall provide the following required information:

1. Name, title, address of contribution recipient;
2. Amount of potential contribution in dollars, or description of services to be performed/requested;
3. Itemization of all other contributions requested and approved, including amounts and dates of payments, and identity recipient(s).

Municipal Finance Professionals using the Request Form shall use the mail or internal delivery system addressed to the Head of the Municipal finance Department and are directed to mark the envelope: “Confidential.” Each contribution request must be based on a separate Request Form and no “blanket or omnibus request for multiple contributions will be accepted.

Review of Request

The Firm’s CCO shall review and evaluate each Request Form to determine whether the contribution is permissible based upon disclosures made and after consideration of the Firm’s municipal finance business relationships and transactions in progress or contemplated.

In all cases, the decision of the Firm's Municipal Securities Principal to "pre-clear" the contribution, or deny it, shall be made within five (5) business days of receipt and shall be final and non-appealable by the Municipal Finance Professional/employee. In every case, pre-clearance or denial will be noted on the Request Form initiated by the Head of the Municipal Finance Department and a copy thereof shall be returned to the requester.

Requesters are required to immediately notify the Firm's Municipal Securities Principal whenever there is a change of circumstances or relevant facts after receipt of pre-clearance and prior to the actual making of the contribution.

Employee Acknowledgment Form

Every Municipal Finance Professional shall provide, on a quarterly basis, a signed "Acknowledgment Form" certifying as to whether the MFP has been involved in any political contribution activities. All executed Acknowledgment Forms shall be retained by the Municipal Finance Department for a period of six (6) years, and a copy of the same shall be provided to all Municipal Finance Professionals and Restricted Persons.

New Hires

The Firm's CCO shall request disclosure of political contributions made by a new applicant for registration or employment prior to making an offer of employment.

Retention of Consultants

All consultants requested to assist the Firm in obtaining or retaining Municipal Securities Business shall be through the use of a written "retainer or engagement agreement." Engagement of consultants shall be subject to the approval of the Firm's Municipal Securities Principal. The written "retainer or engagement agreement" shall include, at a minimum the following terms/provision:

1. Prohibit the individual or consulting firm (including its officers, directors, partners, and other non-clerical employees from making any contributions or other payments, directly or indirectly, for the purposes of obtaining or retaining the Municipal Securities Business on behalf of the Firm.
2. Require consultant's compliance with all applicable laws, rules, and regulations, including without limitation ethics and disclosure rules governing conflicts of interest, including all disclosure necessary to the syndicate; and
3. Continuing representation and covenants to certify annually that the consultant has not made directly or solicited others to make directly, any contributions on behalf of the Firm.

Form G-37

The Firm's CCO, on behalf of the Firm shall be responsible for the submission on or before the quarterly due date (as specified by the MSRB) of a completed Form G-37. Prior to the submission the MSP shall review the information for accuracy and completeness. All information submitted shall be retained by the MSP in the books and records of the Firm.

Rule G-8 Reports

The Firm's CCO, on behalf of the Firm, shall be responsible for maintaining required records and preparing reports pursuant to MSRB Rule G-8 and these Procedures.

SECTION 529 COLLEGE SAVINGS PLANS

529 College Savings Plans are higher education savings plans named for Section 529(b) of the IRS Code. Customer may, through a 529 Plan, contribute cash to be invested for the purpose of collecting savings for education costs of beneficiaries. 529 account investments include pooled investment funds and have characteristics similar to mutual funds or variable annuities.

529 plans created by states or local governmental entities are considered municipal fund securities subject to MSRB rules. This section addresses requirements for 529 plans that are considered municipal securities.

Registration Requirements

The following examinations are required to sell municipal fund securities:

- Series 6 or Series 7 examination. (Series 6 qualification is limited to municipal fund securities only and this qualification does not permit persons to sell individual municipal bonds).
- Supervisors of municipal fund securities, supervisors must have:
 - Series 53;
 - Series 24;
 - Series 51;
 - Series 26 and Series 51.

Characteristics of 529 Plans

General characteristics include the following:

- Plan programs promoted by states or other governmental entities that either oversee plan investments themselves or, more often, hire an outside body such as a mutual fund company to handle underlying investments.
- The person who establishes a plan for a beneficiary retains control, a form of revocable gift. Plans may also allow a change of beneficiary.
- While plans have cumulative maximum contributions, the limits are usually very high.
- There are no federal taxes on earnings if used for qualifying education expenses.
- Withdrawals that are not used for qualifying educational expenses are subject to Federal taxes as well as a 10% penalty. There may also be state tax implications.
- There is no time limit in many states on when the 529 money must be used.
- Other features vary depending on the state's plan and may include limitations on investment options and ability to change investments and limits on aggregate contributions for all beneficiaries.
- For most state plans, the customer does not have to reside in the state to establish a plan.

Delivery of Disclosure Document to Customers

Issuers of 529 plans provide a document to be used in connection with sales of municipal fund securities. This may be an official statement, program disclosure document, information statement, prospectus, or other document provided by the issuer. RRs are obligated to provide the appropriate disclosure document to prospective customers when offering 529 plans.

Sales Practice Considerations, Policies and Procedures

The designated principal of COLORADO FINANCIAL SERVICE will review all 529 transactions and activities to provide reasonable assurance that the transaction conforms to applicable regulations and Colorado Financial Service's policies. Given the characteristics shared between 529 plans and mutual funds, all of Colorado Financial Service's policies and procedures relating to sales practices involving mutual funds also apply to 529 plan activities including the following areas:

Suitability

When recommending 529 plans, the RR has the obligation to determine the suitability of the recommendation, with particular consideration of the plan's underlying investments. RRs should consider the following when discussing 529 plans with prospective purchasers:

- ❖ The customer's investment objectives and the types of underlying investments available.
- ❖ Tax implications including federal and state tax benefits as well as penalties on withdrawals not used for qualifying higher education costs.
- ❖ Limitations in the plan being considered including changing investments, changing beneficiaries, limits on aggregate contributions, time limits for, using plan money, or other limitations.
- ❖ Associated costs including expenses, enrollment fees, mutual fund load expenses, and maintenance fees.
- ❖ Whether out-of-state customers qualify for a particular plan.

Unauthorized Trading

Unless a customer has provided each RR with discretionary authority in writing and such discretionary authority is obtained in accordance with Colorado Financial Service's policies, all transaction in 529 plans must be authorized and approved by the customer prior to effecting the transaction.

Misrepresentations and Omissions

All RR's are required to make fair and balanced presentations of 529 plan characteristics. Such presentations must strictly conform to the content included in the 529 plan disclosure document and, under no circumstances, may representatives intentionally misrepresent or omit plan features.

Excessive Trading

The characteristics of 529 plans generally make them unsuitable as trading vehicles. Consequently, RR's are required to consider the long-term nature of 529 plan securities in their recommendations, and may not recommend frequent transactions in 529 plans (e.g., 529 switches) where such recommendations are inconsistent with the customer's investment objectives, risk tolerance, and financial considerations.

Sales Material and Correspondence For 529 Plans

Special requirements apply to sales material for 529 Plans. In addition to MSRB rule requirements, any municipal fund securities sales material that includes the following information about underlying investment company investments must comply with SEC advertising rules and FINRA Rule 2210:

- ❖ Performance
- ❖ investment objectives or investment strategies
- ❖ experience or capabilities of the investment adviser or portfolio manager
- ❖ potential benefits or risks
- ❖ fees and expenses

All correspondence relating to 529 plans is required to be submitted by RR's to the designated municipal principal for approval prior to use.

Supervision of 529 Plan Activities

The firm's designated municipal principal shall review all 529 transactions and correspondence for conformance with the above policies. The designate principal shall evidence such reviews in writing by initialing the order memoranda/trade blotter and correspondence. All correspondence shall be retained in

accordance with Colorado Financial Service's books and records policies and procedures.

SEC MUNICIPAL DISCLOSURE RULE – SEC RULE 15c2-12

- Colorado Financial Service shall not purchase or sell municipal securities in connection with an Offering unless it reasonably determined that an issuer of municipal securities, or an obligated person for whom financial or operating data is presented in the final official statement has undertaken, either individually or in combination with other issuers of such municipal securities or obligated persons, in a written agreement or contract for the benefit of holders of such securities, to provide, either directly or indirectly through an indenture trustee or a designated agent:
 - o To each nationally recognized municipal securities information repository and to the appropriate state information depository, if any, annual financial information for each obligated person for whom financial information or operating data is presented in the final official statement, or, for each obligated person meeting the objective criteria specified in the undertaking and used to select the obligated persons for whom financial information or operating data is presented in the final official statement, except that, in the case of pooled obligations, the undertaking shall specify such objective criteria;
 - o If not submitted as part of the annual financial information, then when and if available, to each nationally recognized municipal securities information repository and to the appropriate state information depository, audited financial statements for each obligated person covered by Rule 15c2-12;
 - o In a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to the appropriate state information depository, if any, notice of any of the following events with respect to the securities being offered in the Offering, if material:
 - Principal and interest payment delinquencies;
 - Non-payment related defaults;
 - Unscheduled draws on debt service reserves reflecting financial difficulties;
 - Unscheduled draws on credit enhancements reflecting financial difficulties;
 - Substitution of credit or liquidity providers, or their failure to perform;
 - Adverse tax opinions or events affecting the tax-exempt status of the security;
 - Modifications to rights of security holders;
 - Bond calls;
 - Defeasances;
 - Release, substitution, or sale of property securing repayment of the securities;
 - Rating changes; and,
 - o In a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to the appropriate state information depository, if any, notice of a failure of any person specified in Rule 15c2-12 to provide required annual financial information, on or before the date specified in the written agreement or contract.
- The written agreement or contract for the benefit of holders of such securities also shall identify each person for whom annual financial information and notices of material events will be provided, either by name or by the objective criteria used to select such persons, and, for each such person shall:
 - o Specify, in reasonable detail, the type of financial information and operating data to be provided as part of annual financial information;
 - o Specify, in reasonable detail, the accounting principles pursuant to which financial statements will be prepared, and whether the financial statements will be audited; and
 - o Specify the date on which the annual financial information for the preceding fiscal year will

be provided, and to whom it will be provided.

Recommendations of Transactions in Secondary Market

Colorado Financial Service prohibits RR's from recommending the purchase or sale of a municipal security unless the RR has determined, based upon the information systems subscribed to by Colorado Financial Service and available to the RR, that he is aware of any disclosure events described in Rule 15c2-12 including:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the security;
- Modifications to rights of security holders;
- Bond calls;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the securities;
- Rating changes;
- a failure of any person specified in Rule 15c2-12 to provide required annual financial information, on or before the date specified in the written agreement or contract.

SEC Rule 15c2-12 Supervision

The municipal underwriting principal is responsible for reviewing all underwriting participations for conformance with the aforementioned standards. The designated municipal principal responsible for supervising each representative who recommends municipal securities in the secondary market shall be responsible for ensuring that representatives are complying with the above standards relating to secondary market recommendations.

MUTUAL FUNDS

GENERAL POLICIES

The following are the policies of Colorado Financial Service in regard to the sale of mutual fund (registered investment company) shares by registered representatives. Registered representatives must:

- use only literature prepared by the sponsor or underwriter which has the approval of the FINRA;
- never represent that a return of principal (capital gains distributions) is income;
- never represent nor imply that the investor will receive a stable, continuous, dependable or liberal income, or any specified rate of return;
- never represent nor imply that the growth of asset value or rate of dividend return experience in the past can be expected in the future;
- never make extravagant claims regarding management's ability or investment performance; and,
- never exchange shares of one investment company for another without the specific approval of the principal except in funds of the same management when an exchange can be made for a nominal charge.
- never effect any transaction in, or induce the purchase or sale of, any security (including mutual funds) by means of any manipulative, deceptive or other fraudulent device or contrivance.

SALES CHARGES

Colorado Financial Service prohibits the offer and sale of any open-end investment company, any closed-end investment company that makes periodic repurchase offers pursuant to Rule 23c-3(b) under the 1940 Act and offers its shares on a continuous basis pursuant to Rule 415(a)(1)(xi) under the Securities Act of 1933, or any "single payment" investment plan issued by a unit investment trust (collectively "investment companies") registered under the 1940 Act if the sales charges described in the prospectus are excessive as proscribed by FINRA Rule 2830.

SWITCHING

It is prohibited to advise clients to engage in mutual fund transactions on a short-term basis. This prohibition applies in the situations where the client has been charged, or will be charged (in the case of back-end loaded funds), significant sales loads. It does not apply to transfers among sister funds or fund groups where little or no commission costs will be incurred, nor does it apply to transfers in and out of money market funds. In cases where the client's objectives may have changed, representatives may recommend the sale of a mutual fund after a short-term holding period only if:

- appropriate written documentation is prepared reflecting the reasons for the transaction;
- a designated principal approves the transaction in writing prior to execution; and,
- a switching letter (Letter of Authorization) is obtained from the customer (if applicable).

The switching of mutual fund shares is defined as the sale of shares of one investment management company and the subsequent purchase (either immediately or shortly thereafter) of shares in another investment management company.

It is Colorado Financial Service's policy never to permit the switching of funds by a client unless such transaction(s) is/are consistent with the client's stated investment objectives and unless he/she is fully aware of the following important factors:

- Switching from one fund to another or more funds may constitute a taxable transaction with resulting shrinkage to principal; and,
- Switching may further diminish investors' capital through the imposition of an additional sales charge.

Prior to the entry of orders in a switching transaction, a **Letter of Authorization** must be presented to, and executed by, the client (see Appendix). The letter must also be approved in writing by the designated principal.

Switching Supervision

The designated principals will monitor for switching by conducting a daily review of the trading activity in all customer accounts. Such review will be documented by initialing the trade blotter or other record.

A designated principal(s) will also conduct regular and frequent reviews of account activity in selected customer accounts for the purpose of detecting switching problems. A representative sample of all active, full service customer accounts will be selected for review. In addition, the designated principal(s) will review the mutual fund purchase authorization form for indications of switching. If the authorization form indicates that the source of funds was from the liquidation of another mutual fund, further inquiry is required to be made and documented.

The CCO shall conduct periodic, independent reviews of mutual fund transactions for the purpose of detecting potential switching problems.

BREAKPOINTS

Registered representatives must explain to their customers the benefits of available quantity discounts (i.e., breakpoints). The sales charges for most mutual funds are reduced at specified dollar levels for single large purchases, purchases within a 13-month period pursuant to a Letter of Intent, or on a Rights of Accumulation basis which considers current holdings in determining the charge for new purchases. In many cases, some or all of these features will be available to purchasers of a single fund or group of funds under the same management.

The sale of mutual fund shares in dollar amounts below breakpoints for the purpose of maximizing sales charges is against Colorado Financial Service policy. Colorado Financial Service representatives are also restricted from "**splitting**" a customer's order between two or more funds if, as a result of the split, a breakpoint is missed.

On any sale of mutual fund shares near a breakpoint, a **Letter of Acknowledgement (Appendix)** must be signed by the customer. A transaction is considered near a breakpoint if the amount invested is 90 percent or more of the breakpoint requirement. The same letter is also required to be obtained for splitting transactions.

Breakpoint Supervision

The designated principals shall review for breakpoints simultaneously with a switching review. Such review will be conducted both daily and in conjunction with the periodic review of customer account activity. Breakpoints will be checked by comparing the dollar amount of a customer's investment into a mutual fund with the breakpoints of the fund. The purpose of this review will also be to detect the splitting of a

customer's order into different funds with similar investment objectives. Principals should refer to the prospectus in order to conduct their review.

The CCO shall conduct periodic, independent reviews of mutual fund transactions for the purpose of detecting potential breakpoint problems.

SELLING DIVIDENDS

At no time should it be represented to a customer that advantages would be gained by reason of a purchase of mutual fund shares in anticipation of a distribution soon to be paid. The amount of such distribution is included in the price the investor pays for the shares.

LETTERS OF INTENT

A letter of intent is an expression of a purchaser's intention to buy a certain dollar amount of investment company shares over a period of thirteen (13) months, in order to take advantage of the lowest sales charge on the aggregate dollar amount of shares purchased over that 13 month period. While a letter of intent authorizes lower sales charges, it does not bind the customer to invest additional funds.

Under a letter of intent a purchaser agrees to an arrangement which specifies that whenever the total amount needed to qualify for a lower sales charge is not reached in the initial purchase, money will be available to pay the higher sales charges. This may be done by escrowing either cash or shares until the program is completed. The difference in the sales charge is to be used to buy the additional shares.

No registered representative should try to generate more commission dollars by deliberately not informing customers of the availability of a "letter of intent" and by splitting a large order among several funds having the same investment objective.

RIGHTS OF ACCUMULATION

Rights of Accumulation or cumulative quantity discounts may be made available to any person. These are a scale of reducing sales charges in which the sales charge applicable to the securities being purchased is based upon the aggregate quantity of securities previously purchased or acquired and then owned plus the securities being purchased.

At no time will a Registered Representative of Colorado Financial Service initiate any actions to circumvent Rights of Accumulation.

REINSTATEMENT PRIVILEGES

Some funds offer shareholders a "reinstatement privilege" allowing the shareholder to reinvest some or all of the proceeds from a prior liquidation of the fund within a specified period of time (for example, 180 days) at a reduced sales load or no sales load. The RR should determine whether the customer qualifies for a reinvestment privilege and, if he or she qualifies, note this on the order at time of entry.

ANTI-RECIPROCAL STANDARDS

FINRA Rules prohibit from favoring or disfavoring the distribution of shares of any particular investment company or group of investment companies on the basis of brokerage commissions received

or expected by such firm from any source.

The rules specifically prohibit the following activities:

- 1) demands or solicitation of promises of brokerage commissions by dealers as a condition to the sale of fund shares,
- 2) offers or promises of brokerage commissions by principal underwriters as a condition to the sale of fund shares or the requesting or arranging for the direction of a specified amount or percentage of brokerage commissions conditioned upon sales or promises of sales of fund shares,
- 3) the suggesting, encouraging or sponsoring of any dealer's incentive or sales contest by a principal underwriter, which incentive is known to be based upon, or financed by, portfolio brokerage commissions,
- 4) the providing of any kind of special compensation or incentives to sales personnel for the sale of shares of specific investment companies based upon portfolio brokerage commissions received or expected. This prohibition includes contests, bonuses, preferred lists, or commission credits,
- 5) allowing registered representatives, branch managers, or other sales personnel to share in portfolio brokerage commissions received by Colorado Financial Service from an investment company whose shares are sold by the member, if such commissions are directed by or identified with, the investment company. This includes directly assigning the individual to handle the accounts or the transaction, as well as indirect methods of accomplishing such participation.

LATE TRADING

No person associated with Colorado Financial Service is permitted to engage in any activity which results in mutual fund orders submitted after 4:00 E.T. being executed at the same day's closing NAV. Any exceptions to this prohibition must be approved in writing by the designated principal overseeing mutual fund trading activities. The designated principal will conduct a periodic review of mutual fund orders to verify compliance with this requirement.

MARKET TIMING

No person associated with Colorado Financial Service is permitted to effect any market-timing transactions which violate or circumvent mutual fund policies set forth in the prospectus. Each representative's designated supervisory principal is required to review transactions for indications of volatile market timing, and to document any instances of such.

DEALER CONCESSIONS

FINRA Rule 2830 addresses requirements with respect to the payment of dealer concessions and other compensation (including distribution fees paid pursuant to SEC Rule 12b-1 under the Investment Company Act of 1940. This rule allows among other things, non-uniform dealer concessions which are specifically disclosed in a fund's prospectus, and non-cash concessions or compensation if the dealer is given an option to receive the cash equivalent value of a non-cash concession. The rule does not allow dealer concessions to be paid to individual registered representative of another FINRA firm. Secondly, those items specified in the rule as not constituting items of material value are presumed to be unconditional and not tied to any past or future sales quotas. Problems which may arise that would be a violation of this rule if it is conditioned on sales of shares of an investment company, or otherwise does not meet the exemptive provisions of Rule 2830 include:

- 1) payment by a principal underwriter to a dealer to offset expenses incurred in "due diligence" or

- in training registered representative,
- 2) a "business meeting" held by a mutual fund principal underwriter, at a resort hotel, for dealer representatives meeting specified sales quotas,
 - 3) the financing or expense reimbursement by a principal underwriter of a dealer's sales contest expense without specific prospectus disclosure.

SELLING AGREEMENTS

In order to receive (or pay) concessions relating to mutual fund sales, a selling agreement must be executed by the broker/dealer and the investment company and maintained in Colorado Financial Service's files.

PROMPT PAYMENT

FINRA Rules require that firms who engage in direct retail transactions for investment company shares shall transmit payments received from customers for such shares, which such members have sold to customers, to underwriters, investment companies or their designated agent by 1) the end of the third business day following receipt of a customer's order to purchase such shares, or by 2) the end of one business day following receipt of a customer's payment for such shares, whichever is the later date.

IMPORTANT DISCLOSURE REQUIREMENTS

Prospectus Delivery

A critical compliance requirement which must always be adhered to is insuring that the customer receives a prospectus with each mutual fund purchase. Failure to provide this is a violation of the Securities Act of 1933 which carries serious consequences. Registered representatives must always make sure they have an adequate supply of disclosure documents. Registered representatives may not place a mutual fund order unless they have insured that their customer has received a prospectus or will receive a prospectus prior to the completion of the transaction. **Before executing any trade in a mutual fund, registered representatives must advise their customer to read the prospectus before investing or sending money.**

Sales Charge

Although all sales charge information is discussed in the prospectus, it is required that registered representatives disclose all relevant sales charge information verbally to customers. Mutual funds with contingent deferred sales charges (back-end loads) may not be referred to as no-load funds or no-initial load without a complete explanation of the nature of the sales charge.

Long-Term Nature of Mutual Funds

Mutual funds are to be sold as long-term investments with a minimum holding period of three to four years. Registered representatives' sales presentations must disclose this to all customers. If a customer can not commit funds for the minimum period of time, a mutual fund is probably an unsuitable investment.

OTHER MUTUAL FUND SELLING PRACTICES

Colorado Financial Service will take the following additional steps to make sure all aspects of a mutual fund are fully explained:

- 1) Sales charges - make sure the investor understands the sales charges. The three primary types of sales charges are front-end sales charge deducted from the offering price of the shares, asset-based (SEC Rule 12b-1) charges and contingent deferred sales charge (which are now required to be disclosed on all confirmations).
- 2) Net asset value - make sure customers are being advised that the NAV may fluctuate with market conditions and they are not stable as with certificate of deposits or savings accounts.
- 3) Liquidity - make sure all customers are aware their investment may not be as liquid as the CD or savings account they rolled out of to invest in the fund.
- 4) Customer Funds - all customers' funds must be promptly transmitted to the product sponsor or clearing firm in accordance with the firm's other procedural requirements.
- 5) Prospectus - a current prospectus will be delivered at the time of the sale or shortly thereafter. Colorado Financial Service will take steps to make sure they maintain current prospectus in their files or have a means to readily obtain them upon request.
- 6) Redemptions - Colorado Financial Service when requested by the customer to redeem mutual fund interests, will advise the customer to write a letter to the fund requesting the redemption of their securities, have their signature guaranteed by the appropriate authority. These documents will be forwarded by the client directly to the mutual fund.
- 7) Change of Address Signature Verification – Firm will verify the signature on address change requests prior to making the requested change and retain documentation
- 8) Change of Address Confirmation - Colorado Financial Service will confirm in writing any requests to change a customer's address.
- 9) Signature Guarantees - If Colorado Financial Service can guarantee signatures, it will at all times obtain appropriate identification from the person who is signing the document. Copies of the ID documents will be made and maintained in the customer file. In addition, the instruments which are used to guarantee the signature, will be secured at all times and kept on the premises of Colorado Financial Service.
- 10) Suitability - Colorado Financial Service and its representatives will take steps to ensure all recommendations are suitable for the customer. This includes obtaining all required information on the customer to complete in full the new account form and reviewing investment objectives with the customer.

SALES CONTEST STANDARDS

Sales contests involving investment company shares are permitted but must conform to the FINRA's Rules. It is against such rules to provide sales personnel with additional or incentive compensation for selling specific mutual funds when the contest or sales effort is based on or linked to the brokerage commissions directed to the member firm by the mutual fund or its underwriter. Therefore, it is the policy of the firm not to participate in sales contests unless the firm has concluded that the fund is suitable for the firm's customers after reviewing all material aspects of the investment company including its performance record, mix of funds available within the family, and service benefits (e.g., dividend reinvestment).

The firm is prohibited from recommending specific investment companies to sales personnel, or establishing "recommended," "selected," or "preferred" lists of investment companies on the basis of brokerage commissions received or expected from any source.

The firm and its associated persons may not accept anything of material value, material value defined as gifts or payments in excess of \$100 per person per year, in addition to the concessions disclosed in the prospectus.

All compensation, whether in cash or other form, must be paid directly to the member unless written

permission is provided to the underwriter or sponsor of the contest which authorizes such entity to pay the compensation directly to the firm's registered representatives. A copy of the written authorization must be kept in the firm's "Sales Contest File." In addition to providing its written authorization, the firm shall require a detailed statement from the underwriter listing amount of compensation paid to each individual registered representative.

All sales contests, promotions and incentive campaigns, which involve payment of additional or incentive compensation paid to the firm's registered representatives which is based partially or entirely on the registered representative's sales of investment company shares, will be considered contests sponsored by the broker/dealer and must be in compliance with all FINRA rules and internal policies.

Sales Contest Supervision

All sales contests, promotions and incentive campaigns must be coordinated with and approved (in writing) by the designated principal who will be responsible for compliance with all rules and restrictions governing the sales contest, promotion or campaign; and shall maintain all documentation and correspondence pertaining to the terms and conditions of the contest(s) in a separate "Sales Contests File."

DUE DILIGENCE STANDARDS

Colorado Financial Service requires that reasonable inquiry be conducted, prior to recommending mutual fund shares, to verify that the funds are appropriately suited for prospective investors. A designated principal(s) will conduct due diligence on all new mutual fund products being recommended by sales representatives. The following standards shall be adhered to:

Investment Performance

Colorado Financial Service may only recommend those mutual funds which have a demonstrated and acceptable performance history. Historical performance shall be measured against competitive products in determining whether performance is acceptable.

Knowledge of Fund Family and Fund Advisor

Colorado Financial Service's experience and knowledge of the fund family and management shall be considered prior to permitting recommendations to be made in new mutual funds. Prior to adding new fund families, designated principals shall review the families' level of sales support, customer 800 lines, service quality and other benefits, as well as disadvantages, associated with fund families.

Mix of Funds Available

Consideration shall be given to the mix of funds available within each prospective family prior to offering new mutual funds. New funds offered should be associated with fund families which offer exchange privileges into an array of mutual funds with a well balanced variety of investment objectives.

Compensation Considerations

Mutual funds and mutual fund families shall not be selected on a basis which compromises fund performance, or the obligation that Colorado Financial Service has to its customers. Therefore, mutual funds may not be selected on the basis of compensation offered by the fund to broker/dealers.

Ongoing Commitment to Products

Colorado Financial Service shall judge whether the mutual fund has the capacity and willingness to maintain its commitment to the business and to the products offered.

Due Diligence Procedures

Mutual fund recommendations must be supported by Colorado Financial Service's research and due diligence efforts. It is Colorado Financial Service policy to prohibit sales personnel from offering recommendations in mutual fund shares until the firm has satisfied its due diligence obligation. Colorado Financial Service's due diligence activities shall include the following:

- Review of product guides, prospectuses, sales literature and other materials relating to prospective funds and comparison with competitive products;
- Review Morningstar reports on funds, specifically considering the rating, beta, management continuity, portfolio composition, expenses (including sales charges), and performance history. As a general rule, funds which are rated by Morningstar should be rated with at least three stars (out of five). An exception to this rule is permitted when a low rated fund is included within a fund family which Colorado Financial Service maintains a large commitment to;
- Prepare due diligence files including Morningstar reports, prospectuses, sales literature and other materials used to research the funds;
- The designated principals shall document review and approval of each new fund and such written authorization shall be maintained in the due diligence file. Upon approval, appropriate product and compliance training shall be provided to sales representatives; and,
- At least annually, the designated principals shall review Morningstar reports on all funds offered and carefully consider any deterioration in rating and investment performance and any other material information which supports a decision to continue or discontinue investment recommendations in the funds. Such review shall be evidenced in writing and maintained in the due diligence files.

"APPLICATION WAY" TRANSACTIONS

Sales representatives may be permitted to effect mutual fund transactions directly with the mutual fund ("Application Way" transactions). The following procedures must be followed in order to be in compliance with FINRA suitability and record keeping rules:

- Colorado Financial Service must have a signed dealer agreement on file with the fund executed by the President or designee;
- A completed new account form must be on file for the customer, signed by the customer, registered representative and designated principal;
- An order ticket/ mutual fund application shall be completed in entirety;
- All customers checks are to be made payable only to the product sponsor. All such checks shall be photocopied, logged to the Customers' Funds Received and Forwarded blotter, and promptly forwarded to the product sponsor along with the mutual fund application;
- a copy of the mutual fund application shall be retained;

Supervision of "Application Way" Transactions

The designated principal(s) shall review all such transactions, including all documentation prepared in

connection with them. Approval of the transactions shall be evidenced by initialing the order ticket/application.

VARIABLE CONTRACTS

FINRA Conduct Rule 2820 applies to the activities in connection with variable contracts, to the extent such activities are subject to regulation under the federal securities laws.

DEFINITIONS

"Variable contracts" are contracts providing for benefits or values which may vary according to the investment performance of any separate or segregated account or accounts maintained by an insurance company.

"Purchase payment" is the consideration paid at the time of each purchase or installment for or under the variable contract.

SALES CHARGES

Colorado Financial Service **shall not participate** in the offering or in the sale of variable annuity contracts if the purchase payment includes a sales charge which is excessive.

MULTIPLE PAYMENTS

Under contracts providing for multiple payments, a sales charge **shall not be deemed to be excessive** if it does not exceed 8.5 percent of the total payments to be made thereon as of a date not later than the end of the 12th year of such payments, provided that if a contract be issued for any stipulated shorter payment period, the sales charge under such contract shall not exceed 8.5 percent of the total payments there under for such period.

SINGLE PAYMENTS

Under contracts providing for single payments, a sales charge **shall not be deemed to be excessive** if the prospectus sets forth a scale of reducing sales charges related to the amount of the purchase payment which is not greater than the following schedule:

First \$25,000 - 8.5% of purchase payment
Next \$25,000 - 7.5% of purchase payment
Over \$50,000 - 6.5% of purchase payment

Under contracts where sales charges and other deductions from purchase payments are not stated separately in the prospectus, the total deductions from purchase payments (excluding those for insurance premiums and premium taxes) shall be treated as a sales charge for the purposes of this rule, and **shall not be deemed to be excessive** if they do not exceed the percentages for multiple and single payment contracts described above.

RECEIPT OF PAYMENT

Colorado Financial Service will not participate in the offering or in the sale of a variable contract on any basis other than at a value to be determined following receipt of a payment therefore in accordance with the provisions of the contract and, if applicable, the prospectus, the Investment Company Act of 1940, and all applicable rules there under.

Payments need not be considered as received until the contract application has been accepted by the insurance company, **except that by mutual agreement it may be considered to have been received for the risk of the purchaser when actually received.**

TRANSMITTAL

Colorado Financial Service shall transmit promptly to the issuer all applications and/or purchase payments.

SELLING AGREEMENTS

If Colorado Financial Service is a principal underwriter (as defined in the Investment Company Act of 1940), it may not sell variable contracts through another broker/dealer; unless,

- (1) such broker/dealer is a FINRA member, and
- (2) there is a sales agreement in effect between the parties. Such sales agreement must provide that the sales commission be returned to the issuing insurance company if the variable contract is tendered for redemption within seven business days after acceptance of the contract application.

REDEMPTION

Colorado Financial Service shall not participate in an offering or in the sale of a variable contract unless the insurance company, upon receipt of a request for partial or total redemption (in accordance with the provisions of the contract), undertakes to make prompt payment of the amounts requested.

DUE DILIGENCE STANDARDS

Variable contracts shall be reviewed by the designated principals using the same standards and procedures used for conducting due diligence on mutual funds as set forth in the preceding chapter, as applicable.

The sponsoring insurance companies shall meet the following minimum rating standards: (i) Best - A or better; (ii) Standard and Poors - AA or better; (iii) Moody's - Aa1 or better; or, (iv) Duff and Phelps - AA or better. Exceptions to the above standards must be approved in writing by the designated principal overseeing variable contract sales activities.

SUITABILITY

Recommendations associated with variable contracts are subject to the same standards and supervisory procedures set forth in this manual relating to suitability and the requirements of FINRA Rule 2310. All representatives recommending variable contracts shall receive training designed to ensure that customers, and particularly seniors, are offered suitable investments only after the following information is gathered and analyzed: financial status, tax status, investment objectives, risk tolerance, and any other reasonable information necessary to the suitability decision.

COMMUNICATIONS WITH THE PUBLIC

FINRA Rules specify requirements regarding advertising and other communications with the public,

including the following: (Further definition can be obtained in NTM 99-35):

- The product must be identified as either a variable universal life policy (VUL) or variable annuity (VA).
- There may be no indication or implication that the product or its underlying account is a mutual fund.
- There may be no implication that VUL's or VA's are short-term, liquid investments.
- Presentations must be balanced by discussions of the negative impact of early redemption, loans or withdrawals.
- There may be no exaggeration of the safety of the guarantee since the guarantee depends on the issuing company,
- There may be no implied guarantee about investment return or principal value.
- Comparisons and hypotheticals must comply with all FINRA specific guidelines and require the review and approval of the designated principal they may not be used to predict future results or to create a false sense of principal security.
- Communications with the public may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast. A hypothetical illustration of mathematical principles is permitted, provided that it does not predict or project the performance of an investment or investment strategy.

REPLACEMENTS, 1035 EXCHANGES & TWISTING

The practice of recommending liquidations or surrenders of mutual funds and insurance products (including variable contracts) in order to reinvest the proceeds into other insurance-related products for the primary purpose of generating commissions is known as "twisting". Often these transactions are effected in reliance on IRS Code 1035 which allows owners of insurance policies to continue deferring capital gains when switching from one insurance policy to another.

Associated persons of Colorado Financial Service are prohibited from effecting proceeds transactions involving mutual funds and insurance products when such switches produce no demonstrable net benefit to the customer. With respect to all replacements and 1035 exchanges of insurance products, representatives are required to complete a variable contract replacement form and submit the form for approval of by their designated principal prior to effecting such transactions.

CONTRACT DELIVERY

To ensure prompt delivery of contracts to the owner, the contract will be delivered to the representative so that it may be processed and the representative can have the customer sign all receiving documents and acknowledgment letters for record keeping purposes. Contracts that are mailed from the representative's office to the customer's home address should be mailed certified and should contain a return envelope for the customer to mail back the contract receipt letter. The representative should keep all copies of the contract receipt letter and the certified mail card in the customer's file and send original contract receipt letter to the accepting variable company for record keeping purposes.

"APPLICATION WAY" TRANSACTIONS

All application-way transactions in variable contracts must comply with the same policies and procedures governing application-way transactions in mutual funds.

DEFERRED VARIABLE ANNUITIES

1. FINRA Rule 2821 applies to the Responsibilities Regarding Deferred Variable Annuities, to the extent such activities are subject to regulation under the federal securities laws.

(a) General Considerations

(1) Application

This Rule applies to recommended purchases and exchanges of deferred variable annuities and recommended initial subaccount allocations. This Rule does not apply to reallocations among subaccounts made or to funds paid after the initial purchase or exchange of a deferred variable annuity. This Rule also does not apply to deferred variable annuity transactions made in connection with any tax-qualified, employer-sponsored retirement or benefit plan that either is defined as a "qualified plan" under Section 3(a)(12)(C) of the Exchange Act or meets the requirements of Internal Revenue Code Sections 403(b), 457(b), or 457(f), unless, in the case of any such plan, the registered rep makes recommendations to an individual plan participant regarding a deferred variable annuity, in which case the Rule would apply as to the individual plan participant to whom the registered rep makes such recommendations.

(2) Creation, Storage, and Transmission of Documents

For purposes of this Rule, documents may be created, stored, and transmitted in electronic or paper form, and signatures may be evidenced in electronic or other written form.

(3) Definitions

For purposes of this Rule, the term "registered principal" shall mean a person registered as a General Securities Sales Supervisor (Series 9/10), a General Securities Principal (Series 24) or an Investment Company Products/Variable Contracts Principal (Series 26), as applicable.

(b) Recommendation Requirements for Variable Annuities

(1) No registered representative or associated person shall recommend to any customer the purchase or exchange of a deferred variable annuity unless such registered rep has a reasonable basis to believe

(A) that the transaction is suitable in accordance with [Rule 2310](#) and, in particular, that there is a reasonable basis to believe that

(i) the customer has been informed, in general terms, of various features of deferred variable annuities, such as the potential surrender period and surrender charge; potential tax penalty if customers sell or redeem deferred variable annuities before reaching the age of 59½; mortality and expense fees; investment advisory fees; potential charges for and features of riders; the insurance and investment components of deferred variable annuities; and market risk;

(ii) the customer would benefit from certain features of deferred variable annuities, such as tax-deferred growth, annuitization, or a death or living benefit; and

(iii) the particular deferred variable annuity as a whole, the underlying subaccounts to which funds are allocated at the time of the purchase or exchange of the deferred variable annuity, and riders and similar product enhancements, if any, are suitable (and, in the case of an exchange, the transaction as a whole also is suitable) for the particular customer based on the information required by paragraph (b)(2) of this section; and

(B) in the case of an exchange of a deferred variable annuity, the exchange also is consistent with the suitability determination required by paragraph (b)(1)(A) of this section, taking into consideration whether

(i) the customer would incur a surrender charge, be subject to the commencement of a new surrender period, lose existing benefits (such as death, living, or other contractual benefits), or be subject to increased fees or charges (such as mortality and expense fees, investment advisory fees, or charges for riders and similar product enhancements);

(ii) the customer would benefit from product enhancements and improvements; and

(iii) the customer has had another deferred variable annuity exchange within the preceding 36 months.

The determinations required by this paragraph shall be documented and signed by the associated person recommending the transaction.

(2) Prior to recommending the purchase or exchange of a deferred variable annuity, the registered rep shall make reasonable efforts to obtain, at a minimum, information concerning the customer's age, annual income, financial situation and needs, investment experience, investment objectives, intended use of the deferred variable annuity, investment time horizon, existing assets (including investment and life insurance holdings), liquidity needs, liquid net worth, risk tolerance, tax status, and such other information used or considered to be reasonable by the registered rep in making recommendations to customers.

(3) Promptly after receiving information necessary to prepare a complete and correct application package for a deferred variable annuity, the registered rep who recommends the deferred variable annuity shall transmit the complete and correct application package to an office of supervisory jurisdiction of the registered rep.

(c) Principal Review and Approval of Variable Annuities

Prior to transmitting a customer's application for a deferred variable annuity to the issuing insurance company for processing, but no later than seven business days after an office of supervisory jurisdiction of the registered rep receives a complete and correct application package, a registered principal shall review and determine whether he or she approves of the recommended purchase or exchange of the deferred variable annuity.

A registered principal shall approve the recommended transaction only if he or she has determined that there is a reasonable basis to believe that the transaction would be suitable based on the factors delineated in paragraph (b) of this Rule.

The determinations required by this paragraph shall be documented and signed by the registered principal who reviewed and then approved or rejected the transaction.

(d) Supervisory Procedures of Variable Annuities

In addition to the general supervisory and recordkeeping requirements of Rules [3010](#), [3012](#), 3013, and [3110](#), BDAPPLICANT must establish and maintain specific written supervisory procedures reasonably designed to achieve compliance with the standards set forth in this Rule. BDAPPLICANT also must (1) implement surveillance procedures to determine if any of the Firm's associated persons have rates of effecting deferred variable annuity exchanges that raise for review whether such rates of exchanges evidence conduct inconsistent with the applicable provisions of this Rule, other applicable FINRA rules, or the federal securities laws ("inappropriate exchanges") and (2) have policies and procedures reasonably designed to implement corrective measures to address inappropriate exchanges and the conduct of associated persons who engage in inappropriate exchanges.

(e) Variable Annuity Training

BDAPPLICANT shall develop and document specific training policies or programs reasonably designed to ensure that associated persons who effect and registered principals who review transactions in deferred variable annuities comply with the requirements of this Rule and that they understand the material features of deferred variable annuities, including those described in paragraph (b)(1)(A)(i) of this Rule.

••• FINRA Rule 2821 Supplementary Material: -----

.01 Under Rule [2821](#), a member that is permitted to maintain customer funds under SEA Rules 15c3-1 and 15c3-3 may, prior to the member's principal approval of the deferred variable annuity, deposit and maintain customer funds for a deferred variable annuity in an account that meets the

requirements of SEA Rule 15c3-3.

- .02** If a customer provides a member that is permitted to hold customer funds with a lump sum or single check made payable to the member (as opposed to being made payable to the insurance company) and requests that a portion of the funds be applied to the purchase of a deferred variable annuity and the rest of the funds be applied to other types of products, Rule 2821 would not prohibit the member from promptly applying those portions designated for purchasing products other than a deferred variable annuity to such use. A member that is not permitted to hold customer funds can comply with such requests only through its clearing firm that will maintain customer funds for the intended deferred variable annuity purchase in an account that meets the requirements of SEA Rule 15c3-3. In such circumstances, the checks would need to be made payable to the clearing firm.
- .03** Rule 2821 does not prohibit a member from forwarding a check made payable to the insurance company or, if the member is fully subject to SEA Rule 15c3-3, transferring funds for the purchase of a deferred variable annuity to the insurance company prior to the member's principal approval of the deferred variable annuity, as long as the member fulfills the following requirements: (a) the member must disclose to the customer the proposed transfer or series of transfers of the funds and (b) the member must enter into a written agreement with the insurance company under which the insurance company agrees that, until such time as it is notified of the member's principal approval and is provided with the application or is notified of the member's principal rejection, it will (1) segregate the member's customers' funds in a bank in an account equivalent to the deposit of those funds by a member into a "Special Account for the Exclusive Benefit of Customers" (set up as described in SEA Rules 15c3-3(k)(2)(i) and 15c3-3(f)) to ensure that the customers' funds will not be subject to any right, charge, security interest, lien, or claim of any kind in favor of the member, insurance company, or bank where the insurance company deposits such funds or any creditor thereof or person claiming through them and hold those funds either as cash or any instrument that a broker or dealer may deposit in its Special Reserve Account for the Exclusive Benefit of Customers, (2) not issue the variable annuity contract prior to the member's principal approval, and (3) promptly return the funds to each customer at the customer's request prior to the member's principal approval or upon the member's rejection of the application.
- .04** A member is not prohibited from forwarding a check provided by the customer for the purpose of purchasing a deferred variable annuity and made payable to an IRA custodian for the benefit of the customer (or, if the member is fully subject to SEA Rule 15c3-3, funds) to the IRA custodian prior to the member's principal approval of the deferred variable annuity transaction, as long as the member enters into a written agreement with the IRA custodian under which the IRA custodian agrees (a) to forward the funds to the insurance company to complete the purchase of the deferred variable annuity contract only after it has been informed that the member's principal has approved the transaction and (b), if the principal rejects the transaction, to inform the customer, seek immediate instructions from the customer regarding alternative disposition of the funds (e.g., asking whether the customer wants to transfer the funds to another IRA custodian, purchase a different investment, or provide other instructions), and promptly implement the customer's instructions.
- .05** Rule 2821 requires that the member or person associated with a member consider whether the customer has had another deferred variable annuity exchange within the preceding 36 months. Under this provision, a member or person associated with a member must determine whether the customer has had such an exchange at the member and must make reasonable efforts to ascertain whether the customer has had an exchange at any other broker-dealer within the preceding 36 months. An inquiry to the customer as to whether the customer has had an exchange at another broker-dealer within 36 months would constitute a "reasonable effort" in this context. Members shall document in writing both the nature of the inquiry and the response from the customer.

- .06 Rule 2821 requires principal review and approval "prior to transmitting a customer's application for a deferred variable annuity to the issuing insurance company for processing...." In circumstances where an insurance company and its affiliated broker-dealer share office space and/or employees who carry out both the principal review and the issuance process, FINRA will consider the application "transmitted" to the insurance company only when the broker-dealer's principal, acting as such, has approved the transaction, provided that the affiliated broker-dealer and the insurance company have agreed that the insurance company will not issue the contract prior to principal approval by the broker-dealer.
- .07 Rule 2821 does not prohibit using the information required for principal review and approval in the issuance process, provided that the broker-dealer and the insurance company have agreed that the insurance company will not issue the contract prior to principal approval by the broker-dealer. For instance, the rule does not prohibit a broker-dealer from inputting information used as part of its suitability review into a shared database (irrespective of the media used for that database, i.e., paper or electronic) that the insurance company uses for the issuance process, provided that the broker-dealer and the insurance company have agreed that the insurance company will not issue the contract prior to principal approval by the broker-dealer.

2. Division of Responsibilities Outline under Rule 2821 (Deferred Variable Annuities)

This outline highlights the general division of responsibility among registered representatives, registered principals and firms under Rule 2821. Please be aware that, in the case of any misunderstanding, the rule language prevails. In addition, please note that your firm may have additional policies and procedures that registered representatives and principals must follow.

Registered Representatives (RRs),

- **when recommending either a purchase or an exchange of a deferred variable annuity, must**
 1. reasonably try to obtain and consider information about the customer, including
 - a. age
 - b. annual income
 - c. financial situation and needs
 - d. investment experience
 - e. investment objectives
 - f. intended use of the deferred variable annuity
 - g. investment time horizon
 - h. existing assets (*e.g.*, investment and life insurance holdings)
 - i. liquidity needs
 - j. liquid net worth
 - k. risk tolerance
 - l. tax status
 2. reasonably believe that the purchase or exchange is suitable, based on a variety of factors, including
 - a. the customer has been informed, in general terms, of the material features of deferred variable annuities, such as
 - potential surrender period and
 - potential tax penalty components
 - mortality and expense fees
 - charges for and features of surrender charge enhanced riders, if any
 - insurance and investment
 - market risk
 - b. the customer would benefit from one or more features of deferred variable annuities, such as

- tax-deferred growth
 - annuitization
 - a death or living benefit
- c. the particular deferred variable annuity as a whole, underlying subaccounts, and riders and similar product enhancements, if any, are suitable
3. document and sign his or her determinations, providing the principal assigned to review the transaction with enough information to assess compliance with the rule

• when determining suitability for a recommended *exchange* of a deferred variable annuity, also must consider whether the customer

1. would incur a surrender charge, be subject to a new surrender period, lose existing benefits or be subject to increased fees or charges
2. would benefit from product enhancements and improvements
3. has exchanged a deferred variable annuity within the last 36 months

Registered Principals

1. must review each purchase and exchange and determine whether to approve the transaction before sending the customer's application to the insurer for processing, but no later than seven business days after the customer has signed the application
2. must treat all transactions as if they have been recommended for purposes of review
3. can approve the transaction only if he or she reasonably believes that it is suitable based on the factors that RRs must consider for recommended transactions
4. may authorize the processing of an unsuitable transaction if the principal determines both that
 - a. the transaction was not recommended and
 - b. the customer, after being told why the principal found it to be unsuitable, has stated that he or she wants to proceed with the purchase or exchange
5. must document and sign all determinations

Broker-Dealer Firms,

• with respect to supervisory procedures, must

1. have written supervisory procedures reasonably designed to achieve compliance with the rule
2. have surveillance procedures to identify which, if any, of their RRs have a rate of effecting exchanges that raises a question as to whether those exchanges comply with this or other rules
3. have procedures to address and correct exchanges that do not comply with this or other rules

• with respect to training, must

1. create training programs on deferred variable annuities for RRs who sell, and for principals who review transactions in, these products

VARIABLE LIFE INSURANCE

DESCRIPTION OF VARIABLE LIFE INSURANCE

Variable life insurance is an insurance policy that is subject to regulation under state insurance and federal securities laws. Similarly to traditional life insurance, variable life insurance offers a death benefit. Additionally, variable life insurance offers an investment element generally known as the “cash value” through segregated or separate accounts.

CUSTOMER INFORMATION FOR VARIABLE LIFE INSURANCE

Complying with NASD Rule 2310 our firm and our representatives must make reasonable efforts to obtain information concerning a customer’s financial and tax status, investment objectives, and other such information, prior to the execution of a recommended transaction. Our firm and registered representatives should make reasonable efforts to obtain comprehensive customer information, such as the customer’s age, annual income, net worth, liquid net worth, number of dependants, investment objective, source of funds for investment, investment experience, existing investments and life insurance, time horizon, and risk tolerance. Our registered representatives should document this type of information in a customer account information form and should submit it with every variable life insurance application for review by a registered principal.

REVIEW OF CUSTOMER INFORMATION FOR VARIABLE LIFE INSURANCE

Our firm should consider whether the customer desires and needs life insurance and whether the customer can afford the premiums likely needed to keep the policy in force.

PRODUCT INFORMATION FOR VARIABLE LIFE INSURANCE

Our representatives should be thoroughly familiar with the features and costs associated with each recommended variable life insurance policy, including surrender charges, premium and cash value charges, separate account charges, underlying fund fees, subaccount investment options, loan provisions, free-look periods, and policy premium lapse periods. Our registered representatives should be able to convey such information to the customer so that the customer can make an informed decision regarding the recommendation. Also our registered representatives should provide customers with a current prospectus when recommending a variable life insurance policy.

VARIABLE LIFE INSURANCE REPLACEMENTS

Our firm should consider whether or not a replacement policy is in the customer’s best interest by carefully examining the new fees incurred, extended surrender charge periods, possibility of higher insurance risk rating due to health, new suicide and incontestability periods, and tax consequences. Our firm should also use a replacement disclosure form for each variable life insurance replacement transaction.

ADVERTISING AND SALES LITERATURE FOR VARIABLE LIFE INSURANCE

Under NASD Rule 2210, our firm must file variable life insurance advertising and sales literature within 10 days of first use or publication. We are also required to file the format for hypothetical illustrations used in the promotion of variable life insurance policies. All advertizing and sales literature must be approved in writing by a registered principal, prior to use with the public.

SUPERVISORY SYSTEMS AND PROCEDURES FOR VARIABLE LIFE INSURANCE

Our firm has systems in place that provide an easy and expeditious way for customers to communicate complaints, and ensure that complaints are acted upon, analyzed, and researched.

CUSTOMER COMPLAINTS

Colorado Financial Service is required to maintain a file containing all written complaints made by its customers (if any) at its main office and other Offices of Supervisory Jurisdiction, as well as copies of all Colorado Financial Service's responses to complaints.

DEFINITION

A "**complaint**" shall be considered as any written statement, by a client or any person acting on behalf of a client, which alleges a grievance against the firm or anyone in connection with the solicitation or execution of any securities transaction or the disposition of securities or the funds of that client.

Customer grievances, **verbal or written**, must be brought to the immediate attention of a designated principal. Under no circumstances are registered representatives to answer or settle any complaint directly with clients.

CUSTOMER COMPLAINT PROCEDURES

Upon receipt of a written complaint, the designated principal shall:

- Acknowledge receipt of the complaint, in writing, to the client, or client's counsel, and provide the customer with an "Investor Brochure" if the complaint involves a municipal security. Acknowledgement letters should be sent within three business days of receipt of the complaint;
- Investigate the complaint and require written memoranda in response to the customer's allegations from registered representative and any others knowledgeable of the facts;
- Promptly respond to the customer, when the analysis is complete, maintaining a copy of the response in the file. Responses to complaints must be forwarded to the President and CCO for review prior to submission; and,
- Retain all documentation relating to the complaint in the firm's central complaint file. The centralized file must include: the complainant's name, address, and account number; the date the complaint was received; the name of any other associated person identified in the complaint; a description of the nature of the complaint; and the disposition of the complaint. Note: Instead of the record, the firm may maintain a copy of each original complaint in a separate file by the associated person named in the complaint along with a record of the disposition of the complaint.

RULE 3070 FILINGS

Reporting of Customer Complaints and Document Filings

All FINRA firms must make an electronic filing of 10 reportable events within 10 business days after Colorado Financial Service knows of or should have known of the existence of any of these events. The FINRA distributed software shortly after the implementation date for all firms or their service bureaus to file the required notifications. The instances to be reported are typed into the software program which is titled "Customer Complaint System Software" (CCSS) and filed electronically via Sprint with the FINRA in Rockville, MD.

Quarterly statistical data relating to "written" customer complaints will be filed by Colorado Financial

Service if it has received a written customer complaint. If a firm has not received a written customer complaint, then no filing is required. The quarterly information is due 15 calendar days after the end of the calendar quarter in which the complaint is received.

Colorado Financial Service is also required to promptly file with FINRA copies of:

- (1) any indictment, information or other criminal complaint or plea agreement relating to the firm's (or associated person's) indictment, conviction, guilty or no-contest plea to any felony; or any misdemeanor that involves the purchase or sale of any security, the taking of a false oath, the making of a false report, bribery, perjury, burglary, larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds, or securities, or a conspiracy to commit any of these offenses, or substantially equivalent activity in a domestic, military, or foreign court; for conduct reportable under paragraph (a)(5) of this Rule;
- (2) any complaint in which a member is named as a defendant or respondent in any securities or commodities-related private civil litigation;
- (3) any securities or commodities-related arbitration claim filed against a member in any forum other than the FINRA Dispute Resolution forum;
- (4) any indictment, information or other criminal complaint, any plea agreement, or any private civil complaint or arbitration claim against a person associated with a member that is reportable under question 14 on Form U-4, irrespective of any dollar thresholds Form U-4 imposes for notification, unless, in the case of an arbitration claim, the claim has been filed in the FINRA Dispute Resolution forum.

Reportable Events

FINRA Conduct Rule 3070 lists 10 reportable events which must be reported to the FINRA. These events apply both to Colorado Financial Service and any associated person. An associated person as defined by the FINRA includes any sole proprietor, partner, officer, director, branch manager, registered representative, registered principal or any person controlling or controlled by Colorado Financial Service whether registered, exempt or not [see FINRA By-Laws Art. I, (q)] .

The filing via CCSS is separate and apart from any other required filings including the amendment to the Form U-4 or the filing of a Form U-5. BOTH steps must be taken since the FINRA neither coordinates nor integrates any of this information.

The 10 reportable events are as follows

- 1) Securities Laws or Regulation Violations -
if found to violate any provision of any:
 - a) securities law or regulation,
 - b) any government agency rule or standard of conduct,
 - c) self regulatory organization (SRO) law or regulation, e.g., FINRA, NYSE, etc.
 - d) financial business or professional organization, e.g., AICPA, IBCFP, etc.) engaged in conduct inconsistent with just and equitable principles of trade and Colorado Financial Service knows or should have known of these actions.
- 2) Written Customer Complaints -
Colorado Financial Service or an associated person is the subject of any written complaint involving allegations of theft or misappropriation of funds or securities or of forgery.
- 3) Named Defendant or Respondent -

if Colorado Financial Service or associated person is a named defendant or respondent in any proceeding brought by an:

- a) SRO
- b) the SEC
- c) any state
- d) any other federal regulatory body
- e) insurance commission, commodities, CFTC, NFA or other regulatory body which alleges violation of any provision of the Securities Act of 1934, or any other federal or state securities, insurance or commodities statute, or any rule or regulation there under, or any provision of the By-Laws, rules or similar governing instruments of any securities, insurance or commodities regulatory or SRO.

4) Registration Disruption -

If any firm or associated person's registration is affected by a regulatory body then this is a reportable action. Specific actions are as follows:

- a) registration denied
- b) expulsion and/or enjoinder
- c) cease and desist orders
- d) suspension, fine or other action taken by a regulatory body
- e) any reportable disciplinary action by an SRO, whether securities, insurance or commodities related
- f) barred or membership denied

5) Criminal Offenses -

If Colorado Financial Service or an associated person is indicted, convicted of or pleads no contest to, any criminal offense. Criminal offense means any misdemeanor or felony offense except for driving violations, e.g., speeding tickets. It would encompass DUI's (driving under the influence).

6) Affiliations with a company -

Any director, controlling stockholder, partner, officer or sole proprietor of, or an associated person with a:

- a) broker/dealer
- b) investment company
- c) insurance company
- d) investment advisor
- e) underwriter which is suspended, expelled, had its registration denied or revoked by any agency, jurisdiction or organization or is associated in such a capacity with a bank, trust company, or other financial institution which was convicted of or pleaded no contest to, any felony or misdemeanor.

7) Defendant or Respondent in Concluded Matter -

is a defendant or a respondent in any securities or commodities-related civil litigation or arbitration which has been disposed of by judgment, award or settlement for an amount exceeding \$15,000. If this action is against Colorado Financial Service, the reportable limit is

any amount exceeding \$25,000 when such claim is settled.

8) Subject of a Settled/Resolved Claim -

an associated person subject to any claim for damages by a customer, broker, or dealer which is settled for an amount exceeding \$15,000. Colorado Financial Service is subject to an amount exceeding \$25,000 reporting limit if that claim for damages, by a customer, broker, or dealer is settled.

9) Statutory Disqualification -

is associated in any business or financial activity with any person who has been statutorily disqualified and the member knows or should have known of this association.

10) Disciplinary Action -

If Colorado Financial Service internally disciplined any associated person by suspending, terminating, withholding of commissions or imposition of fines in excess of \$2,500 or otherwise disciplined that person in a manner which significantly limits their activities on a temporary or permanent basis this must be reported.

Note: as previously discussed, this filing would be separate and apart from the filing of a Form U-5 which may disclose Colorado Financial Service's actions taken.

Rule 3070 Supervision:

The regulation states the burden is on Colorado Financial Service to make these filings within 10 business days "when it knows or should have known of the existence of any of the conditions set forth in paragraph (a) of the rule," i.e., the 10 reportable events.

All associated persons are responsible for immediately notifying his or her immediate supervisor of the occurrence of any reportable events. The supervisor shall then transmit this information, including any related documentation, to the principal responsible for 3070 filings who will file the necessary information electronically, or in document form (as applicable) with the SRO.

LAWSUITS AND REGULATORY INQUIRIES

Employee Responsibilities

All employees must promptly report to their designated principal any matter involving:

- Inquiries, visits, proceedings, refusals of registration, injunctions, censures, suspensions, expulsions, and other disciplinary or legal actions by any regulatory organization, including stock exchanges, the FINRA, and government regulatory bodies;
- Customer grievances, verbal or written;
- Receipt of subpoenas, involvement in litigation or arbitration of any kind, and entry of any judgments;
- Bankruptcy or contempt proceedings;
- Arrests, summons, subpoenas, indictments, and convictions pertaining to criminal offenses; and,
- Allegations of conduct violating just and equitable principles of trade, any securities law, any agreement with an exchange, or any rule of an exchange, the FINRA, the SEC, or any other regulatory organization.

Procedures in Response to Specific Legal and Regulatory Advisories

Requests for information or documents, complaints, and inquiries which are received through the mails from any regulatory organization, whether in the form of general correspondence subpoena or questionnaire, shall be referred immediately to the employee's designated principal. It is important that such matters receive prompt attention.

The registered representative's designated principal will, in most instances, be responsible for responding to the inquiry. Copies of responses will be forwarded to the President and CCO for review/approval prior to submission.

BUSINESS CONTINUITY PLANNING

Business Continuity Plan (FINRA Rules 3510 and 3520)

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

The principal designated for responsibility, who is a member of senior management, shall:

1. Review the firm's BCP plan no less than annually and make any changes necessary;
2. Verify, within 17 business days following the end of each calendar quarter, that the firm primary and secondary emergency contact person assignments reported to FINRA are current and accurate;
3. Ensure that customers are provided with the BCP disclosure as required by Rule 3510 upon establishment of their account and that is posted on any Colorado Financial Service website.

COMMUNICATIONS WITH THE PUBLIC

ADVERTISING AND SALES LITERATURE

The FINRA has established standards regarding the use and disclosure of member names in public communications, including business cards and letterhead. Generally, the standard requires that the member name be prominently and clearly identified, that references to other entities be made clear, and that references to bona fide degrees or designations not be misleading. There are specific standards relating to use of DBAs, divisions, derivative names, and use of phrases such as "securities offered through."

Colorado Financial Service's personnel should also be familiar with the following advertising standards:

- **SCRUTINY.** The designated principal must carefully scrutinize all advertising prior to its use, and will consult with the CCO to resolve any doubts about a specific advertisement and whether or not it should be filed with appropriate regulatory agencies. Principals should not hesitate to bring the item to the attention of the CCO if any doubt exists as to whether or not the content of the item complies with advertising rules.
- **APPROVAL.** Each item of advertising and sales literature must be approved in advance by the designated advertising principal.
- **RETENTION AND FILING.** A separate file of advertisements and sales literature will be maintained. It must include the name(s) of the person(s) who prepared and/or approved their use. There is a three year record retention requirement for the materials. Advertisements must be filed with the FINRA's Advertising Department for the first year (beginning with filing of first advertisement), ten days prior to their use; or in the case of mutual funds, variable contracts, and unit investment trusts, within ten days of first use or publication. Filing in advance of use is optional.
- **SERVICE CHARGE.** Section 13 of Schedule A to the FINRA Bylaws established a service charge of \$25 per item (including video or audio tapes), plus \$5 per page for more than five pages. An expedited charge of \$200 is also available. (FINRA Notice #91-13.) Exempted are those items filed or submitted in response to a written request from the FINRA Advertising Department issued pursuant to Article III, Section 35(c)(6) of the FINRA's Rules of Fair Practice.

If multiple copies of identical material are submitted as one package, one filing has been made and one \$15.00 fee should be paid; if several distinct items are submitted in one package, a separate \$15.00 fee should be included for each individual piece.

- **CONTENTS.** The anti-fraud rules of the federal and state securities laws apply to advertisements by a broker/dealer. FINRA members' advertising must be "based on principles of good faith and fair dealing." Misleading, or statements with omitted material, may be legal violations.

Communications must provide a sound basis for evaluating the facts regarding the securities offered by members. Material facts and qualifications may not be omitted if, in the context of the material presented, the omission would make the advertising or sales literature misleading. Exaggerated or misleading statements are prohibited, and members may not publish or distribute any public communications that the member knows, or has reason to know, contains any untrue statements of material fact, or are otherwise false or misleading.

There are standards governing the use of testimonials in advertisements (refer to the FINRA rule). In particular, there are standards regarding testimonials that concern the quality of a firm's advice. If more than a nominal sum is paid for the testimonial, the fact that it is a paid testimonial must be indicated.

Members need not file advertising and/or sales literature that was previously filed by the sponsor, general
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partner, or underwriter of an offering. It is recommended that a prospectus for the offering accompany the filing of advertising and/or sales literature relating to that offering.

CORRESPONDENCE AND INSTITUTIONAL SALES LITERATURE

Under FINRA rules, “correspondence” is defined as any written letter or electronic mail message distributed by a member to:

- (A) one or more of its existing retail customers; and
- (B) fewer than 25 prospective retail customers within any 30 calendar-day period.

"Existing Retail Customer" means any person for whom the member or a clearing broker or dealer on behalf of the member carries an account, or who has an account with any registered investment company for which the member serves as principal underwriter, and who is not an institutional investor. "Prospective Retail Customer" means any person who has not opened such an account and is not an institutional investor.

"Institutional Sales Material" consists of any communication that is distributed or made available only to institutional investors. "Institutional Investor" means any:

- (A) person described in Rule 3110 as an “institutional account” regardless of whether that person has an account with an FINRA member;
- (B) governmental entity or subdivision thereof;
- (C) employee benefit plan that meets the requirements of Section 403(b) or Section 457 of the Internal Revenue Code and has at least 100 participants, but does not include any participant of such a plan;
- (D) qualified plan, as defined in Section 3(a)(12)(C) of the Act, that has at least 100 participants, but does not include any participant of such a plan;
- (E) FINRA member or registered associated person of such a member; and
- (F) person acting solely on behalf of any such institutional investor.

No member may treat a communication as having been distributed to an institutional investor if the member has reason to believe that the communication or any excerpt thereof will be forwarded or made available to any person other than an institutional investor.

Retention of Communications with the Public

Colorado Financial Service requires all correspondence, sales literature, institutional sales literature, advertising, and other communications with public, including all electronic communications, to be retained for at least six years (2 years in a readily accessible location) regardless of whether regulatory requirements require shorter retention.

Email

Representatives may communicate via Email using only their authorized Email address for any Colorado Financial Service – related communications and are prohibited from using any unauthorized Email address. Any exceptions to this policy will be granted and memorialized in writing by the CCO.

All incoming and outgoing Email is required to be retained in accordance with the firm’s Electronic Communications Policy. This may be accomplished using in-house systems and/or outside service providers. The Firm shall review email using a risk based random sampling.

Supervision of Correspondence and Institutional Sales Literature

Correspondence and Institutional Sales Literature must not be approved if it includes questionable or

inappropriate statements, or if it fails to include essential disclosures. The following are examples of inappropriate content:

- (a) Unreasonable, exaggerated or based on rumor.
- (b) About a company where securities are about to be the subject of a new offering or about a security in registration or subject to the prospectus requirements.
- (c) A forecast of a specific amount of capital gains or income distributions on mutual fund shares.
- (d) A promise that a particular stock is going to rise in price.
- (e) An assurance against loss in a customer's account.

All outgoing correspondence and institutional sales literature are required to be provided by RR's to their designated principal in either written or electronic format upon transmission to the customer. The designated principal is required to review a representative sample such items. CFSC uses a risk based method of sampling. Following review, the designated principal shall initial the items and retain them in a central correspondence file.

Training and Education

The CCO shall ensure that all associated persons receive periodic, and no less than annual, training concerning the firm's correspondence and institutional sales literature policies and procedures. Such training will be documented by the CCO. The CCO shall periodically, and no less than annually, conduct and document surveillance reviews to ensure that the firm's policies and procedures are being adequately implemented.

ELECTRONIC COMMUNICATIONS POLICY

This policy governs the use of electronic communications by personnel and RRs of the Firm. This policy also extends to off-hours usage of electronic communications systems. The following summarizes key points of this policy. It is important that the policy be read in its entirety. All personnel and RRs of the Firm are subject to this policy.

1. The Firm's electronic communications systems are to be used for business purposes only;
2. Electronic communications should not be considered private;
3. Electronic communications are subject to monitoring and audit by the Firm;
4. E-mails are subject to federal law restricting the sending of unsolicited electronic mail;
5. Posting information and participating in chat rooms or instant messaging systems for Firm-related communications is generally prohibited;
6. Certain public communications require approval and retention;
7. To avoid downloading a computer virus, do not open attached documents from unknown sources;
8. Failure to comply with this policy may lead to disciplinary action.

Electronic Communications Defined

Electronic communications include (but are not necessarily limited to) electronic mail (E-mail), third-party E-mail systems, Internet Telephone, Facsimile transmissions, News Groups, File Transfer Protocol (FTP), World Wide Web browsing (WWW), Intranet, Electronic Bulletin Boards, Internet Relay Chat (IRC) or similar "Chat Rooms", Instant Messaging Systems, Remote Host Access (Telnet

or TN3270), and Other information transmissions via the Internet

Instant Messaging

Instant messaging is included in some internet services and provides the ability to conduct instant, online interactive "conversations." Employees/RRs must be aware that because instant messaging provides a method of recording and potentially keeping such conversations, they are treated as written communications subject to advertising, sales literature, and correspondence recordkeeping review and retention requirements. The use of instant messaging subjects those communications to review by the Firm, retention in its records, and potential delivery to regulators, legal authorities, or others in civil litigation or arbitrations. Instant messages are not appropriate for "confidential" communications.

Employees/RRs are prohibited from using instant messaging to communicate with any person relating to the firm's business. Any exception to this policy requires the prior written approval of the CCO and all conditions relating to such approval must be documented. Satisfaction of the conditions must also be fully documented.

Guidelines For Proper Use

The Firm's electronic communications systems should be used primarily for business purposes. Personal use should be only incidental and occasional. Electronic communications with customers and/or the public are permitted only through company-sponsored or alternative approved facilities.

The following guidelines apply:

Electronic Communications Are Not Private

Employees/RRs should not confuse phone conversations or face-to-face conversations with communications through electronic means. Newspaper articles, regulatory actions, and legal actions abound with the consequences of employees/RRs who do not take what they say in electronic communications seriously. The repercussions of casual or poorly worded communications have potential adverse consequences for both the Firm and the employee/RR. While electronic communications often seem like one-on-one conversations, and many people converse in electronic communications in a casual and non-business manner, it is important to understand that the use of the Firm's electronic communications systems or approved alternative systems are communications that may be seen by others either through the Firm's review system or outsiders who access this information through official and authorized means or sometimes through unauthorized means.

Electronic communications and residual or temporary files resulting from participation in electronic communications can be widely disseminated. It is possible that such communications be saved to disk, printed, forwarded to another party, subpoenaed in litigation, viewed by system administrators or regulatory agents, and/or intercepted by anyone at a variety of points. Electronic communications are not suitable for communications that must remain confidential or private, unless the Employee/RR has arranged for encryption of confidential messages. There should be no expectations of privacy in electronic communications.

Communications Must Conform To Appropriate Business Standards And The Law

Users of our electronic communications systems are expected to follow appropriate business communication standards. Sending or receiving communications that are inappropriate, profane, obscene, discriminatory, threatening or otherwise offensive is prohibited. Sending or receiving jokes, puzzles, games, chain messages, pictures, video/sound files and frequent or long personal correspondence are some examples of inappropriate use. Use must comply with applicable local, state, federal and international laws.

Record Retention Requirements

The Firm is required to retain records of its electronic communications. The Firm retains electronic communications in accordance with these requirements (see Books and Records). The CCO shall periodically, and no less than annually, review the firm's retention systems for the purpose of ensuring

that all required electronic communications are retained as required.

Monitoring, Audit And Control

Electronic communications through the Firm's systems are the property of the Firm. The Firm reserves the right to monitor and audit electronic communications at any time for appropriate business usage, standards and compliance with this policy and applicable procedures.

E-Mail - Standard Disclosures Included With Outgoing E-Mail Communications

The following disclosure should be added to all E-mail "signatures" if the E-mail is being sent to an investment client or prospect:

Securities offered through Colorado Financial Service. Member FINRA. [Include address and phone number of the main office of Colorado Financial Service for non-OSJs and non registered branch offices.] (For registered branch locations, the same disclosure is needed but Colorado Financial Service's address and phone # are not required.)

Attachments

In order to avoid downloading a computer virus, do not open attachments unless you are familiar with the source.

Restrictions On Unsolicited E-Mails (CAN-SPAM Act of 2003)

Federal law imposes restrictions on commercial e-mail, particularly unsolicited "mass" e-mail messages. "Commercial electronic mail" includes any electronic mail message primarily for the purpose of sending a commercial advertisement or promotion of a commercial product or service. It does not include electronic mail relating to transactions or where there is a relationship between the sender and the recipient.

Recipients of commercial e-mail must be provided the opportunity to "opt-out" and not receive future e-mails.

Senders of commercial e-mail may not:

- Use false or misleading e-mail header information or deceptive subject headings or otherwise deceive the recipient regarding the sender's address.
- Without prior authorization, use computers owned by others to transmit messages.
- Register for an e-mail address or domain name using materially false information or falsely represent themselves to be the registrants for Internet protocol addresses.
- Use automated means to create multiple e-mail addresses from which to send commercial e-mail (e.g., using a computer program to create multiple "Yahoo" accounts).

Each commercial e-mail must include clear and conspicuous identification that the message is an advertisement or solicitation; a valid physical postal address of the sender; and a valid return address or other method for the recipient to "opt-out" from receiving further e-mails.

Internet

Employees/RRs may not post any Firm advertising or any business-related information without Compliance authorization.

The Firm maintains a corporate Web site as its official Internet presence. Without prior authorization, personnel may not post information to the Internet containing any of the following: References to or information about the Firm, Communications involving investment advice, References to investment-related issues, or Links to any of the above.

This includes posting such information to the Internet through such means including, but not limited to, the World Wide Web, Electronic Bulletin Boards, File Transfer Protocol (FTP) sites or any other

method to establish their own Internet presence.

RR Web Sites

The FINRA has published an Internet Guide for Registered Representatives which is available at the FINRA's web site at www.finra.org/Industry/Issues/Advertising/p006118. Individual representative (or office) web sites need pre-approval in accordance with the Firm's policies and procedures established for written communications. Refer to the "Communications With The Public" chapter for further policies regarding web sites.

Chat Rooms

As interactive, extemporaneous conversations, chat rooms are considered a public forum. RR's are prohibited from participating in any chat room which involves the firm's business unless the standards set forth herein are complied with. If a person wishes to participate in a chat room for business purposes, they must obtain prior written authorization from Compliance. In addition, content guidelines must be acknowledged in writing by RRs and copies of the discussion must be printed by the RR and provided to Compliance for monitoring. Exceptions: Chat rooms that do not deal with investments or securities.

Failure To Comply

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

- Oral and/or written warning or notification of violation communicated to the Firm's personnel involved and their supervisor.
- Suspension of electronic communications privileges permanently or for a set period of time.
- Messages may be blocked or rejected if the message contains inappropriate content.
- Written warning to the employee's/RR's file.
- Suspension from work.
- Education course related to the infraction, and paid for by the employee/RR.
- Monetary sanctions
- Regulatory discipline or censure.
- Possible termination of employment.

Consent To Policy

In using the Firm's electronic communications systems, personnel consent to the terms outlined in this policy, including consent for the Firm to monitor and audit content and/or usage.

MUTUAL FUND ADVERTISING AND SALES LITERATURE

All advertising and sales literature concerning mutual funds must be filed with the FINRA within ten days of use. Evidence of such filing should be attached to the advertising item and maintained in the main office's advertising file. All sales literature sent to customers must be accompanied by a prospectus.

SUPERVISION OF ADVERTISING AND SALES LITERATURE

All advertising and sales literature must be reviewed and approved in writing by the designated principal prior to dissemination. If the aforementioned parties have any concerns relating to an advertising item's compliance with applicable regulations, the item should be filed with the FINRA's advertising department

and approval obtained prior to distributing the item. Copies of all advertising must be maintained in a central file maintained by the CCO.

COMMUNICATIONS INVOLVING CDs

The FINRA requires its members to provide adequate disclosure in advertisements, sales literature, and in its verbal communications that encourage investors to transfer funds from certificates of deposit (CDs) and other insured investments into riskier, non-insured products. (See FINRA NTM 91-74 and FINRA Regulatory & Compliance Alert - March, 1993.)

The current investment environment of low interest rates and strong stock market performance finds more and more investors transferring money from conservative investments, such as CDs and money market accounts to securities including bonds or mutual funds. Of particular concern are unsophisticated or first-time investors unsure of the material differences between products with varying levels of risk.

In view of these concerns, Colorado Financial Service and its associated persons must inform customers that while higher yields may be realized using certain securities, an investor's capital may be exposed to risk not present in CDs and other insured investments. Investors must be made fully aware of the differences between CDs and other fixed-income investments, especially the risk to their principal if interest rates should rise. These disclosures must be made in all advertising and sales literature which compares CDs with securities, and also must be made when verbally soliciting securities purchases when the sales presentation involves comparisons with CDs, or when the source of the investors funds is coming from a CD or similar bank product including a money market account.

SEMINARS AND PUBLIC SALES MEETINGS

Seminars and sales meetings with prospects and clients are an important and effective sales technique used by many registered representatives. These seminars are a form of public advertising in that they inform the public concerning financial matters and available investment services. It is essential that they be carefully and properly conducted. The material presented must be based on the principles of fair dealing and good faith and should provide a sound basis for evaluating the facts in regard to any particular security discussed or service offered. No material fact or qualification may be omitted if the omission would cause the material presented to be misleading. Exaggerated, unwarranted or misleading statements or claims are prohibited.

Colorado Financial Service and its principals have the responsibility of insuring that the following rules are followed regarding seminars and public sales meetings:

- Seminar announcements must be reviewed and approved by the principal. Such approval is required even if the seminar is organized and conducted by a product sponsor;
- The principal must review and approve the agenda of seminars to be conducted by any registered representative. If written sales material is to be distributed to clients at the seminar (other than FINRA approved sales materials supplied by the issuer or underwriter), such materials must be approved, prior to use, by the principal;
- Prospectuses or Offering Circulars for all products discussed must be available for distribution to interested clients;
- The registered representative conducting the seminar must be identified as a registered person with the firm; and,
- Non-approved securities products may not be discussed at seminars.

STATE SECURITIES ("BLUE SKY") LAWS

Most states have enacted laws regulating the sale of securities and the activities of broker/dealers in securities. These laws are commonly known as "Blue Sky Laws," and in most states provide (a) that no securities dealer or securities salesperson may sell securities in the particular state unless the firm and the salesperson are registered under state law, and (b) that no security may be sold in the particular state unless the security is registered or qualified for sale (unless a specific exemption applies).

State Blue Sky Laws define the term "securities" very broadly, as does the Securities Act of 1933. In addition to stocks, bonds, debentures, and other evidence of indebtedness, specifically included as securities are investment contracts (i.e., interest in limited partnerships), certificates of interest, or participation in profit-sharing agreements and other things. Courts construing the term "security," as the term is defined by the statute, have been very expansive in their inclusion within the term of items, which on their face would seem not to fit the definition. All Blue Sky Laws contain general anti-fraud provisions which track the language of SEC Rule 10b-5. The anti-fraud provisions of the Blue Sky Laws apply to securities transactions irrespective of the application of the registration, exemption, or qualification provision.

SUPERVISION OF BLUE SKY LAW COMPLIANCE

Principals are required to review customer addresses for state registration problems. Each designated principal will regularly review new account applications for this purpose. Any detected problems in this area shall be brought to the attention of the President and CEO of Colorado Financial Service and the CCO. Designated principals shall also be responsible for initiating the state registration process for representatives under their supervisory authority and ensuring that the representatives become registered in each state prior to conducting business.

The Financial and Operational Principal, or designee, shall conduct periodic reviews of incoming customer's checks for the purpose of identifying addresses in states where Colorado Financial Service is not registered. If the address of the customer is in a state where the firm is not registered, the cashiering principal shall notify the President of Colorado Financial Service who shall take appropriate action.

INSIDER TRADING POLICY AND PROCEDURES

LEGISLATIVE BACKGROUND OF INSIDER TRADING

The Securities and Exchange Commission (SEC) and the U.S. Department of Justice have been vigorously pursuing violations of insider trading laws. The focus of previous indictments has been on individuals and broker/dealers who had misused material and nonpublic information (i.e., "inside" information) either by improperly transmitting the information to others or by effecting securities transactions based on inside information. In 1988, Congress expanded the authority of the SEC and U.S. Department of Justice to pursue insider trading violations through enactment of the Insider Trading and Securities Fraud Enforcement Act. The Act, in addition to increasing the penalties for insider trading, also requires broker/dealers to establish, maintain, enforce and update written policies and procedures designed to prevent the misuse of material nonpublic information by its directors, officers and employees.

The Federal Reserve Board has issued a Policy Statement on the Use of Inside Information which advises banks under its regulatory oversight to develop and adopt written policies and procedures suitable to its particular circumstances, to ensure that inside information in its possession is not misused.

In response to the requirements under the Act and the Federal Reserve's Policy Statement, Colorado Financial Service, LLC has adopted a corporate insider trading policy. Due to its unique needs and regulatory requirements as a registered broker/dealer, Colorado Financial Service is adopting this policy in order to satisfy its additional obligations while also incorporating the standards of the corporate policy. Colorado Financial Service is also adopting the following policies and procedures to avoid even the appearance of improper conduct on the part of anyone employed by or associated with Colorado Financial Service. Not only is it important to protect Colorado Financial Service against civil and criminal liability under the Act and other relevant laws and regulations, but it is equally important to protect Colorado Financial Service's reputation for integrity and sound business practices.

OBJECTIVES OF INSIDER TRADING POLICIES AND PROCEDURES

The primary purpose of the adopted standards is to communicate Colorado Financial Service's policies concerning insider trading and the procedural safeguards to prevent the misuse of "inside" information by officers, directors and employees.

It is also the intent to provide guidance for officers, directors and employees of Colorado Financial Service to comply with existing legal restrictions and to adopt sound business practices. It is not intended that the adoption of this policy and procedures will result in the imposition of liabilities that would not exist in the absence of any policy and procedures.

INSIDER TRADING DEFINITIONS

Material information is any information which a reasonable investor would consider important in a decision to buy, hold or sell the securities of a corporation. Therefore, "material" information may be any information which could reasonably affect, either positively or negatively, the price of a corporation's securities. Examples of material information include:

- Proposals, plans or agreements (even if preliminary in nature) involving mergers or acquisitions;
- Significant changes in management;
- Changes in debt ratings;

- Significant litigation;
- Changes in earnings estimates or actual earnings; and,
- Changes in dividend policies.

Inside information is material, nonpublic information concerning a corporation or its securities.

Associated persons of Colorado Financial Service include all officers, directors, registered representatives and employees.

PENALTIES AND CONSEQUENCES OF INSIDER TRADING

The consequences of insider trading violations can be catastrophic to individuals and to their employers. The judgments rendered in recent insider trading cases imply strongly that the convicted individuals will serve some jail time.

Individuals who trade on inside information or tip information to others will likely receive:

- a civil penalty of up to three times the profit gained or loss avoided;
- a criminal fine (no matter how small the profit) of up to \$1 million; and,
- a jail term of up to ten years.

Companies (and possibly supervisory personnel) that fail to take appropriate steps to prevent illegal trading or tipping will likely receive:

- a civil penalty to the greater of \$1 million or three times the profit gained or loss avoided as a result of the employee's violation; and,
- a criminal penalty of up to \$2.5 million.

In addition to the above legal penalties, violations of the policy and procedures contained herein may likely result in company imposed sanctions against the employee, including termination for cause. Obviously, any of the above consequences, even an SEC investigation that does not result in prosecution, can tarnish an individual's reputation and irreparably damage a career.

INSIDER TRADING POLICY

All associated persons of Colorado Financial Service are to comply fully with all federal and state regulations governing securities transactions.

If any associated person has knowledge of material nonpublic information relating to any publicly traded company, it is Colorado Financial Service's policy that neither that person nor any related person may buy or sell securities of the company or engage in any other action to take advantage of, or pass on to others, that information until at least 72 hours after such information has been publicly available through the news media.

It is important to emphasize that insider trading laws and the above policy can be violated in two separate ways, when:

- Associated persons of Colorado Financial Service trade the securities of an issuer while in possession of material and nonpublic information concerning the issuer; or,
- Associated persons of Colorado Financial Service improperly transmit material and nonpublic information concerning an issuer to another individual, (i.e., "tipping") who effects a securities transaction based upon the information provided.

The penalties described above apply whether or not the "tipper" derives any benefit from the "tippee's" actions. In fact, the SEC has imposed significant fines on tippers even though they did not profit from the tippee's trading.

INSIDER TRADING SAFEGUARDS AND RESTRICTIONS

Colorado Financial Service and its personnel may, in the course of conducting a securities business, obtain information concerning customers, vendors or other persons which may be considered "inside" information. Therefore, it is important that Colorado Financial Service implement preventive procedures and other safeguards designed to provide reasonable assurance that its personnel understand and comply with insider trading regulations and its adopted policies and procedures.

Employee Training On Insider Trading

Colorado Financial Service will conduct initial insider training with new employees and annual training thereafter. Registered representatives will annually sign an attestation to their understanding of insider trading rules. Employees and registered representatives will be kept up to date on new or revised insider trading regulations.

Information Exchange Barriers and Procedures

By restricting, to as great an extent as possible, the number of individuals having access to "material information," a broker/dealer is building a good defense against possible insider trading violations. Procedural safeguards which restrict access to inside information are also referred to as "Chinese Walls." In addition to restricting access to inside information, information barriers are adopted to prevent conflict of interest problems, to promote customer protection, and to facilitate the detection of insider trading abuses.

Multi-service broker/dealers (i.e., broker/dealers which offer corporate finance and/or investment banking services in addition to brokerage services) generally will erect procedural and physical barrier between its internal departments in order to restrict inside information to those individuals who have a "need-to-know." In order to provide reasonable assurance that conflicts of interest are minimized and insider trading laws are complied with, the Colorado Financial Service has adopted the following procedural safeguards.

Separation of Trading Functions from Corporate Finance Functions

The first safeguard is designed to separate employees who perform trading services from corporate finance areas. Corporate finance activities therefore include the following:

- Providing financial advisory, underwriting, investment banking and private placement services to corporate clients;

Because Colorado Financial Service conducts trading and investment advisory functions, its associated persons are restricted from gaining access to inside information provided to, and generated by, the corporate finance areas. Reasonable assurance that inside information will not be communicated

improperly to Colorado Financial Service personnel shall be accomplished through mandatory compliance with the following guidelines:

- Colorado Financial Service personnel who perform trading or investment advisory functions should not have access to corporate finance files or other files that may contain material and nonpublic information;
- Colorado Financial Service personnel who perform trading or investment advisory functions should not attend private meetings between or among personnel engaged in corporate finance activities where material and nonpublic information is discussed;
- Colorado Financial Service personnel should not serve simultaneously on any committee having responsibility for making investment decisions or recommendations with respect to specific securities transactions, and any committee having responsibility for corporate finance activities;

Monitoring Employee Trading For Insider Trading and Investigating Suspect Trades

All trading done in accounts of Colorado Financial Service's associated persons will be regularly monitored by the designated principal and periodically examined by the CCO. Among the objectives of this review is to detect purchases and sales of securities just prior to material news announcements influencing the price of the securities and therefore based on material and nonpublic information. A second objective is to detect employee transactions which are of unusually large size and therefore possibly based on material and nonpublic information.

The designated principal will promptly review and initial all associated person's trade confirmations received during the month for all securities accounts (i.e., both outside securities accounts and Colorado Financial Service accounts carried by clearing firm, with the exception of outside brokerage accounts owned by Colorado Financial Service directors). The size of all transactions shall also be reviewed in relation to the individual's historical investment pattern. Transactions, which are identified as unusual in terms of size, should be carefully monitored in relation to news announcements and fluctuations in the price of the security. The designated principal shall advise the CCO of all transactions which are determined questionable or suspicious based on this review. A method of further investigation shall then be established, executed, and documented.

At month end, the designated principal shall review a monthly associated person's trade blotter for indications of insider trading. If this review indicates the possibility of insider trading, the CCO shall be advised and a method of further investigation established. This method may include reviewing a more extended period of the individuals trading, questioning the individual about the trade(s), and attempting to identify the manner in which the individual may have acquired inside information. The method of investigation and its results shall be documented by the CCO. The documentation must include, at a minimum:

- Name of security;
- Date investigation began;
- Identification of the accounts involved; and,
- Summary of the investigation's disposition.

Procedures for Handling Inside Information

Colorado Financial Service's associated persons are advised to promptly report any information which may possibly be construed as inside information to their designated principal. Upon management's determination that the information is of a material and nonpublic nature, management should promptly:

- Halt all associated persons' trading and recommendations of the securities;
- Ascertain the validity and nonpublic nature of the information;
- In the event the information is not publicly disseminated, notify the Colorado Financial Service CCO and the Corporation's legal counsel and request advice as to what further steps should be taken, including possible publication of the information, before trading and recommendations in the securities are resumed; and,
- Prepare documentation which records the event and all response actions taken.

Restricted and Watch Lists

Many broker/dealers and an increasing number of bank holding companies are utilizing Restricted and Watch Lists to facilitate the prevention and detection of abusive insider trading practices. Colorado Financial Service may employ the use of such devices when considered necessary and in the best interest of Colorado Financial Service.

A **restricted list** is used by a company to advise employees of the names of other companies' securities which employees are restricted from trading. A company will generally circulate such a list when there exists a publicly disclosed relationship between the company and other publicly traded entities, and the company wishes to preclude the possibility of perceptions of impropriety which may result from employee trading in these entities' securities. A restricted list will generally not include the names of companies with whom Colorado Financial Service is involved in confidential dealings or has been provided with inside information concerning the companies.

A **watch list** is generally used to alert only selected corporate officers and compliance personnel of the names of companies which Colorado Financial Service or its affiliates is engaged in sensitive business dealings and where Colorado Financial Service or the affiliate has obtained inside information concerning the company or another issuer. A watch list may be used in such instances to closely monitor employee transactions for the purpose of detecting trading which may be based on inside information.

TWENTY-TWENTY HINDSIGHT

Associated persons of Colorado Financial Service should bear in mind that their securities transactions will be viewed after-the-fact with the benefit of hindsight. Therefore, before engaging in any securities transaction, Colorado Financial Service personnel should carefully consider how regulators and others might view the transaction in hindsight.

CERTIFICATION AND REPORTING

Colorado Financial Service associated persons are required to attest to understanding of and conformance with the Insider Trading and Securities Fraud Enforcement Act of 1988 on an annual basis (**Appendix**).

Employee Assistance

Colorado Financial Service personnel who have questions about specific transactions or general information found within these standards may obtain additional guidance by contacting Colorado Financial Service's Chief Financial Officer or Colorado Financial Service's CCO. Colorado Financial Service personnel should

be aware, however, that the ultimate responsibility for adhering to the policy and procedures set forth herein, and avoiding improper transactions, rests with the individuals themselves.

ANTI-MONEY LAUNDERING COMPLIANCE PROGRAM

FIRM POLICY

It is the policy of the firm to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities by complying with all applicable requirements under the Bank Secrecy Act (BSA) and its implementing regulations.

Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the proceeds appear to have derived from legitimate origins or constitute legitimate assets. Generally, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's checks, or deposited into accounts at financial institutions. At the "layering" stage, the funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or legitimate businesses.

Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal either the origin of the funds or their intended use, which could be for criminal purposes. Legitimate sources of funds are a key difference between terrorist financiers and traditional criminal organizations. In addition to charitable donations, legitimate sources include foreign government sponsors, business ownership and personal employment. Although the motivation differs between traditional money launderers and terrorist financiers, the actual methods used to fund terrorist operations can be the same as or similar to methods used by other criminals to launder funds. Funding for terrorist attacks does not always require large sums of money and the associated transactions may not be complex.

Our AML policies, procedures and internal controls are designed to ensure compliance with all applicable BSA regulations and FINRA rules and will be reviewed and updated on a regular basis to ensure appropriate policies, procedures and internal controls are in place to account for both changes in regulations and changes in our business.

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

AML COMPLIANCE OFFICER DESIGNATION AND DUTIES

The firm has designated a Anti-Money Laundering Program Compliance Officer (AML Compliance Person) and FINRA AML Contact Person (see Appendix), with full responsibility for the firm's AML program. The AMLCO has a working knowledge of the BSA and its implementing regulations and is qualified by experience, knowledge and training. The duties of the AML Compliance Person will include monitoring the firm's compliance with AML obligations, overseeing communication and training for employees. The AML Compliance Person will also ensure that the firm keeps and maintains all of the required AML records and will ensure that Suspicious Activity Reports (SAR-SFs) are filed with the Financial Crimes Enforcement Network (FinCEN) when appropriate. The AML Compliance Person is vested with full responsibility and authority to enforce the firm's AML program.

The firm will provide FINRA with contact information for the AML Compliance Person, including: (1) name; (2) title; (3) mailing address; (4) email address; (5) telephone number; and (6) facsimile number through the FINRA Contact System (FCS). The firm will promptly notify FINRA of any change in this information through FCS and will review, and if necessary update, this information within 17 business days after the end of each calendar year. The annual review of FCS information will be conducted and will be completed with all necessary updates being provided no later than 17 business days following the end of each calendar year. In addition, if there is any change to the information, the AMLCO will update the information promptly, but in any event not later than 30 days following the change.

Rules: 31 C.F.R. § 103.120; FINRA Rule 3310, NASD Rule 1160.

Resources: [NTM 06-07](#); [NTM 02-78](#). Firms can submit their AML Compliance Person information through [FINRA's FCS Web page](#).

GIVING AML INFORMATION TO LAW ENFORCEMENT AND FINANCIAL INSTITUTIONS

FinCEN Requests Under PATRIOT Act Section 314

FINRA Comments:

Pursuant to the BSA and its implementing regulations, financial institutions are required to make certain searches of their records upon receiving an information request from FinCEN.

In order for a firm to obtain information requests from FinCEN, the firm must first designate an AML Contact Person in FCS. You should be aware that if you want to change the person who receives FinCEN requests, you must change the AML contact information in FCS. When you are faced with a change in personnel who will receive this information, you should be aware that FinCEN receives a data feed of this revised information from FCS every other week and that it may take several weeks for a firm's new AML contact person to receive information from FinCEN. Therefore, it is advisable for a firm that is aware that a person who had been receiving FinCEN is leaving the firm to change the information on FCS as soon as practical to ensure continuity of receiving FinCEN information.

We will respond to a Financial Crimes Enforcement Network (FinCEN) request concerning accounts and transactions (a 314(a) Request) by immediately searching our records to determine whether we maintain or have maintained any account for, or have engaged in any transaction with, each individual, entity or organization named in the 314(a) Request as outlined in the Frequently Asked Questions (FAQ) located on FinCEN's secure Web site. We understand that we have 14 days (unless otherwise specified by FinCEN) from the transmission date of the request to respond to a 314(a) Request. We will designate through the FINRA Contact System (FCS) one or more persons to be the point of contact (POC) for 314(a) Requests and will promptly update the POC information following any change in such information. (*See also* Section 2 above regarding updating of contact information for the AML Compliance Person.) Unless otherwise stated in the 314(a) Request or specified by FinCEN, we are required to search those documents outlined in FinCEN's FAQ. If we find a match, We will report it to FinCEN via FinCEN's Web-based 314(a) Secure Information Sharing System within 14 days or within the time requested by FinCEN in the request. If the search parameters differ from those mentioned above (for example, if FinCEN limits the search to a geographic location), We will structure our search accordingly.

If the AMLCO searches our records and does not find a matching account or transaction, then the AMLCO will not reply to the 314(a) Request. We will maintain documentation that we have performed the required search by [*add the details on how your firm will document its searches here. For example, printing a search self-verification document from FinCEN's 314(a) Secure Information Sharing System confirming that your firm has searched the 314(a) subject information against your records OR maintaining a log showing the date of the request, the number of accounts searched, the name of the individual conducting the search and a notation of whether or not a match was found*].

We will not disclose the fact that FinCEN has requested or obtained information from us, except to the extent necessary to comply with the information request. The AMLCO will review, maintain and implement procedures to protect the security and confidentiality of requests from FinCEN similar to those procedures established to satisfy the requirements of Section 501 of the Gramm-Leach-Bliley Act with regard to the protection of customers' nonpublic information.

We will direct any questions we have about the 314(a) Request to the requesting federal law enforcement agency as designated in the request.

Unless otherwise stated in the 314(a) Request, we will not be required to treat the information request as continuing in nature, and we will not be required to treat the periodic 314(a) Requests as a government provided list of suspected terrorists for purposes of the customer identification and verification requirements.

Rule: 31 C.F.R. § 103.100.

Resources: [FinCEN press release \(2/6/03\)](#); [FinCEN press release \(2/12/03\)](#); [NASD Member Alert \(2/14/03\)](#); [FinCEN's 314\(a\) Fact Sheet \(11/18/08\)](#). FinCEN also provides financial institutions with General Instructions and Frequently Asked Questions relating to 314(a) requests through the 314(a) Secured Information Sharing System or by contacting FinCEN at (800) 949-2732.

National Security Letters

National Security Letters (NSLs) are written investigative demands that may be issued by the local Federal Bureau of Investigation and other federal government authorities conducting counterintelligence and counterterrorism investigations to obtain, among other things, financial records of broker-dealers. NSLs are highly confidential. No broker-dealer, officer, employee or agent of the broker-dealer can disclose to any person that a government authority or the FBI has sought or obtained access to records. Firms that receive NSLs must have policies and procedures in place for processing and maintaining the confidentiality of NSLs. If you file a Suspicious Activity Report (SAR-SF) after receiving a NSL, the SAR-SF should not contain any reference to the receipt or existence of the NSL.

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

Grand Jury Subpoenas

FINRA Comments:

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

We understand that the receipt of a grand jury subpoena concerning a customer does not in itself require that we file a Suspicious Activity Report (SAR-SF). When we receive a grand jury subpoena, we will conduct a risk assessment of the customer subject to the subpoena as well as review the customer's account activity. If we uncover suspicious activity during our risk assessment and review, we will elevate that customer's risk assessment and file a SAR-SF in accordance with the SAR-SF filing requirements. We understand that none of our officers, employees or agents may directly or indirectly disclose to the person who is the subject of the subpoena its existence, its contents or the information we used to respond to it. To maintain the confidentiality of any grand jury subpoena we receive, we will process and maintain the subpoena by [describe procedure]. If we file a SAR-SF after receiving a grand jury subpoena, the SAR-SF will not contain any reference to the receipt or existence of the subpoena. The SAR-SF will only contain detailed information about the facts and circumstances of the detected suspicious activity.

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

Voluntary Information Sharing With Other Financial Institutions Under USA PATRIOT Act Section 314(b)

FINRA Comments:

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

We will share information with other financial institutions regarding individuals, entities, organizations and countries for purposes of identifying and, where appropriate, reporting activities that we suspect may involve possible terrorist activity or money laundering. The AMLCO will ensure that the firm files with FinCEN an initial notice before any sharing occurs and annual notices thereafter. We will use the notice form found at [FinCEN's Web site](#). Before we share information with another financial institution, we will take reasonable steps to verify that the other financial institution has submitted the requisite notice to FinCEN, either by obtaining confirmation from the financial institution or by consulting a list of such financial institutions that FinCEN will make available. We understand that this requirement applies even to financial institutions *with which we are affiliated*, and that we will obtain the requisite notices from affiliates and follow all required procedures.

We will employ strict procedures both to ensure that only relevant information is shared and to protect the security and confidentiality of this information, for example, by segregating it from the firm's other books and records and [*describe any other procedures*].

We also will employ procedures to ensure that any information received from another financial institution shall not be used for any purpose other than:

- identifying and, where appropriate, reporting on money laundering or terrorist activities;
- determining whether to establish or maintain an account, or to engage in a transaction; or
- assisting the financial institution in complying with performing such activities.

Rule: 31 C.F.R. § 103.110.

Resources: [FinCEN Financial Institution Notification Form; FIN-2009-G002: Guidance on the Scope of Permissible Information Sharing Covered by Section 314\(b\) Safe Harbor of the USA PATRIOT Act \(06/16/2009\)](#).

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

FINRA Comments:

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

suspicious activity involving the sale of variable insurance products. Disclosures that are made for the purposes of jointly filing a SAR are protected by the safe harbor contained in the SAR regulations. The financial institutions that jointly file a SAR shall each be separately responsible for maintaining a copy of the SAR and should maintain their own SAR supporting documentation in accordance with BSA recordkeeping requirements. See generally Section 12 (Suspicious Transaction and BSA Reporting) for information on a broker-dealer's obligation to file a SAR to report suspicious transactions.

We will file joint SARs if applicable. We will also share information about a particular suspicious transaction with any broker-dealer, as appropriate, involved in that particular transaction for purposes of determining whether we will file jointly a SAR-SF.

If we determine it is appropriate to jointly file a SAR-SF, we understand that we cannot disclose that we have filed a SAR-SF to any financial institution except the financial institution that is filing jointly. If we determine it is not appropriate to file jointly (e.g., because the SAR-SF concerns the other broker-dealer or one of its employees), we understand that we cannot disclose that we have filed a SAR-SF to any other financial institution or insurance company.

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

Sharing Information With Other Financial Institutions

Colorado Financial Service currently does not share information with other financial institutions and will implement the following prior to entering into sharing arrangements:

We will share information about those suspected of terrorist financing and money laundering with other financial institutions for the purposes of identifying and reporting activities that may involve terrorist acts or money laundering activities and to determine whether to establish or maintain an account or engage in a transaction. We will file with FinCEN an initial notice before any sharing occurs and annual notices afterwards. We will use the notice form found at www.fincen.gov. Before we share information with another financial institution, we will take reasonable steps to verify that the other financial institution has submitted the requisite notice to FinCEN, either by obtaining confirmation from the financial institution or by consulting a list of such financial institutions that FinCEN will make available. We understand that this requirement applies even with respect to financial institutions *with whom we are affiliated*, and so we will obtain the requisite notices from affiliates and follow all required procedures.

We will employ strict procedures both to ensure that only relevant information is shared and to protect the security and confidentiality of this information, including segregating it from the firm's other books and records.

In addition to sharing information with other financial institutions about possible terrorist financing and money laundering, we will also share information about particular suspicious transactions with our clearing broker for purposes of determining whether one of us will file a SAR-SF. In cases in which we file a SAR-SF for a transaction that has been handled both by us and by the clearing broker, we may share with the clearing broker a copy of the filed SAR-SF, unless it would be inappropriate to do so under the circumstances, such as where we filed a SAR-SF concerning the clearing broker or one of its employees.

CHECKING THE “OFAC” List

FINRA Comments:

Although not part of the BSA and its implementing regulations, the Office of Foreign Assets Control (OFAC) compliance is often performed in conjunction with AML compliance. OFAC is an office of the U.S. Treasury that administers and enforces economic sanctions and embargoes based on U.S. foreign policy and national security goals that target geographic regions and governments (e.g., Cuba, Sudan and Syria), as well as individuals or entities that could be anywhere (e.g., international narcotics traffickers, foreign terrorists and proliferators of weapons of mass destruction). As part of its enforcement efforts, OFAC publishes a list of Specially Designated Nationals and Blocked Persons (SDN list), which includes names of companies and individuals who are connected with the sanctions targets. U.S. persons are prohibited from dealing with SDNs wherever they are located, and all SDN assets must be blocked. Because OFAC's programs are constantly changing, describe how you will check with OFAC to ensure that your SDN list is current and also that you have complete information regarding the listings of economic sanctions and embargoes enforced by OFAC affecting countries and parties before opening an account and for existing accounts

Before opening an account, and on an ongoing basis, the AMLCO will check to ensure that a customer does not appear on the SDN list or is not engaging in transactions that are prohibited by the economic sanctions and embargoes administered and enforced by OFAC. (See the [OFAC Web site](#) for the SDN list and listings of current sanctions and embargoes). Because the SDN list and listings of economic sanctions and embargoes are updated frequently, we will consult them on a regular basis and subscribe to receive any available updates when they occur. With respect to the SDN list, we may also access that list through various software programs to ensure speed and accuracy. See also [FINRA's OFAC Search Tool](#) that screens names against the SDN list. The AMLCO will also review existing accounts against the SDN list and listings of current sanctions and embargoes when they are updated and [*he or she*] will document the review.

If we determine that a customer is on the SDN list or is engaging in transactions that are prohibited by the economic sanctions and embargoes administered and enforced by OFAC, we will freeze the account, reject the transaction and/or block the customer's assets and file a blocked assets and/or rejected transaction form with OFAC within 10 days. We will also call the OFAC Hotline at (800) 540-6322 immediately.

Our review will include customer accounts, transactions involving customers (including activity that passes through the firm such as wires) and the review of customer transactions that involve physical security certificates or application-based investments (e.g., mutual funds).

Resources: [SEC AML Source Tool, Item 12](#); [OFAC Lists Web page](#) (including links to the SDN List and lists of sanctioned countries); [FINRA's OFAC Search Tool](#). You can also subscribe to receive updates on the [OFAC Subscription Web page](#). See also the following OFAC forms: [Blocked Properties Reporting Form](#); [Voluntary Form for Reporting Blocked Transactions](#); [Voluntary Form for Reporting Rejected Transactions](#); [OFAC Guidance Regarding Foreign Assets Control Regulations for the Securities Industry](#).

CUSTOMER IDENTIFICATION AND VERIFICATION

FINRA Comments:

Firms are required to have and follow reasonable procedures to document and verify the identity of their customers who open new accounts. These procedures must address the types of information the firm will collect from the customer and how it will verify the customer's identity. These procedures must enable the firm to form a reasonable belief that it knows the true identity of its customers. The final rule, which

FinCEN and the SEC jointly issued on April 30, 2003, applies to all new accounts opened on or after October 1, 2003.

The firm's customer identification program (CIP) must be in writing and be part of the firm's AML compliance program.

Note that the CIP rule applies only to "customers" who open new "accounts" with a broker-dealer. Specifically, the CIP rule defines a "customer" as (1) a person that opens a new account or (2) an individual who opens a new account for an individual who lacks legal capacity or for an entity that is not a legal person. "Customer" does not refer to persons who fill out account opening paperwork or who provide information necessary to establish an account, if such persons are not the accountholder as well.

Also, for purposes of the CIP rule's definition of customer, the following entities are excluded from the definition of "customer":

- a financial institution regulated by a federal functional regulator (that is, an institution regulated by the Board of Governors of the Federal Reserve;*
- Federal Deposit Insurance Corporation;*
- National Credit Union Administration;*
- Office of the Comptroller of the Currency;*
- Office of Thrift Supervision; Securities and Exchange Commission; or*
- Commodity Futures Trading Commission) or a bank regulated by a state bank regulator;*
- a department or agency of the United States, of any State, or of any political subdivision of any State;*
- any entity established under the laws of the United States, of any State, or of any political subdivision of a State that exercises governmental authority on behalf of the United States, any State, or any political subdivision of a State;*
- any entity, other than a bank, whose common stock or analogous equity interests are listed on the New York Stock Exchange or the American Stock Exchange or have been designated as a NASDAQ National Market Security (now designated as either a NASDAQ Global Market Security or a NASDAQ Global Select Market Security) listed on the NASDAQ Stock Market, with the exception of stock or interests listed under the separate "NASDAQ Small-Cap Issues" (now known as NASDAQ Capital Markets) heading (but only to the extent of domestic operations for any such persons that are financial institutions, other than banks); or*
- a person that has an existing account with the broker-dealer, provided the broker-dealer has a reasonable belief that it knows the true identity of the person.*

Accordingly, a broker-dealer is not required to verify the identities of persons with existing accounts at the firm, as long as the broker-dealer has a reasonable belief that it knows the true identity of the customer.

For purposes of the CIP rule, an "account" is defined as a formal relationship with a broker-dealer established to effect transactions in securities, including, but not limited to, the purchase or sale of securities, securities loan and borrowing activity, and the holding of securities or other assets for safekeeping or as collateral. The following are excluded from the definition of "account": (1) an account that the broker-dealer acquires through any acquisition, merger, purchase of assets or assumption of liabilities and (2) an account opened for the purpose of participating in an employee benefit plan established under the Employee Retirement Income Security Act of 1974 (ERISA).

Rule: 31 C.F.R. §103.122(a)(1)(i)(ii) and 103.122(a)(4)(i)(ii).

Resources: [SEC Staff Q&A Regarding the Broker-Dealer Customer Identification Program Rule \(October 1, 2003\)](#); [NTM 03-34](#); [FIN-2006-G007: Frequently Asked Question: Customer Identification Program Responsibilities under the Agency Lending Disclosure Initiative \(April 25, 2006\)](#).

In addition to the information we must collect under FINRA Rules 2110 (Standards of Commercial Honor and Principles of Trade), 2310 (Recommendations to Customers - Suitability), and 3110 (Books and Records), and SEC Rules 17a-3(a)(9) (Beneficial Ownership regarding Cash and Margin Accounts) and 17a-3(a)(17) (Customer Accounts), we have established, documented, and maintained a written Customer Identification Program (or CIP). We will collect certain minimum customer identification information from each customer who opens an account; utilize risk-based measures to verify the identity of each customer who opens an account; record customer identification information and the verification methods and results; provide notice to customers that we will seek identification information and compare customer identification information with government-provided lists of suspected terrorists.

1. Required Customer Information

Prior to opening an account, we will collect the following information for all accounts, if applicable, for any person, entity or organization that is opening a new account and whose name is on the account:

- (1) the name;
- (2) date of birth (for an individual);
- (3) an address, which will be a residential or business street address (for an individual), an Army Post Office (APO) or Fleet Post Office (FPO) box number, or residential or business street address of next of kin or another contact individual (for an individual who does not have a residential or business street address), or a principal place of business, local office, or other physical location (for a person other than an individual); and
- (4) an identification number, which will be a taxpayer identification number (for U.S. persons), or one or more of the following: a taxpayer identification number, passport number and country of issuance, alien identification card number, or number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or other similar safeguard (for non-U.S. persons).

In the event that a customer has applied for, but has not received, a taxpayer identification number, we will request a copy of the application and obtain the taxpayer identification number within a reasonable period of time after the Tax ID number is issued following the account opening.

When opening an account for a foreign business or enterprise that does not have an identification number, we will request alternative government-issued documentation certifying the existence of the business or enterprise.

Rule: 31 C.F.R. §103.122(b)(2)(i)(A) & § 103.122(b)(2)(i)(B).

2. Customers Who Refuse To Provide Information

If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, our firm will not open a new account and, after considering the risks involved, consider closing any existing account. In either case, our AML Compliance Officer will be notified so that we can determine whether we should report the situation to FinCEN (i.e., file a Form SAR-SF).

3. Verifying Information

Based on the risk, and to the extent reasonable and practicable, we will ensure that we have a reasonable belief that we know the true identity of our customers by using risk-based procedures to verify and document the accuracy of the information we get about our customers. In verifying customer identity, we will analyze any logical inconsistencies in the information we obtain.

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

Appropriate documents for verifying the identity of customers include, but are not limited to, the following:

- For an individual, an unexpired government-issued identification evidencing nationality, residence, and bearing a photograph or similar safeguard, such as a driver's license or passport; and
- For a person other than individual, documents showing the existence of the entity, such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument.

We understand that we are not required to take steps to determine whether the document that the customer has provided to us for identity verification has been validly issued and that we may rely on a government-issued identification as verification of a customer's identity. If, however, we note that the document shows some obvious form of fraud, we must consider that factor in determining whether we can form a reasonable belief that we know the customer's true identity.

We will use the following non-documentary methods of verifying identity:

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

We will use non-documentary methods of verification when:

- (1) the customer is unable to present an unexpired government-issued identification document with a photograph or other similar safeguard;
- (2) the firm is unfamiliar with the documents the customer presents for identification verification;
- (3) the customer and firm do not have face-to-face contact; and
- (4) there are other circumstances that increase the risk that the firm will be unable to verify the true identity of the customer through documentary means.

We will verify the information within a reasonable time before or after the account is opened. Depending on the nature of the account and requested transactions, we may refuse to complete a transaction before we have verified the information, or in some instances when we need more time, we may, pending verification, restrict the types of transactions or dollar amount of transactions. If we find suspicious information that indicates possible money laundering or terrorist financing activity, we will, after internal consultation with the firm's AML compliance officer, file a SAR-SF in accordance with applicable law and regulation.

We recognize that the risk that we may not know the customer's true identity may be heightened for

certain types of accounts, such as an account opened in the name of a corporation, partnership or trust that is created or conducts substantial business in a jurisdiction that has been designated by the U.S. as a primary money laundering concern or has been designated as non-cooperative by an international body. We will identify customers that pose a heightened risk of not being properly identified. In such instances, we will take additional measures that may be used to obtain information about the identity of the individuals associated with the customer when standard documentary methods prove to be insufficient, such as obtaining information about individuals with authority or control over such account..

Rule: 31 C.F.R. §103.122(b).

4. Lack of Verification

When we cannot form a reasonable belief that we know the true identity of a customer, we will do the following: (1) not open an account; (2) impose terms under which a customer may conduct transactions while we attempt to verify the customer's identity; (3) close an account after attempts to verify customer's identity fail; and (4) determine whether it is necessary to file a SAR-SF in accordance with applicable laws and regulations.

Rule: 31 C.F.R. §103.122(b)(2)(iii).

5. Recordkeeping

We will document our verification, including all identifying information provided by a customer, the methods used and results of verification, and the resolution of any discrepancies identified in the verification process. We will keep records containing a description of any document that we relied on to verify a customer's identity, noting the type of document, any identification number contained in the document, the place of issuance, and if any, the date of issuance and expiration date. With respect to non-documentary verification, we will retain documents that describe the methods and the results of any measures we took to verify the identity of a customer. We will also keep records containing a description of the resolution of each substantive discrepancy discovered when verifying the identifying information obtained. We will retain records of all identification information for five years after the account has been closed; we will retain records made about verification of the customer's identity for five years after the record is made.

Rule: 31 C.F.R. §103.122(b)(3).

6. Comparison with Government Provided Lists of Terrorists and Other Criminals

At such time as we receive notice that a federal government agency has issued a list of known or suspected terrorists and identified the list as a list for CIP purposes, we will, within a reasonable period of time after an account is opened (or earlier, if required by another federal law or regulation or federal directive issued in connection with an applicable list), determine whether a customer appears on any such list of known or suspected terrorists or terrorist organizations issued by any federal government agency and designated as such by Treasury in consultation with the federal functional regulators. We will follow all federal directives issued in connection with such lists.

We will continue to comply separately with OFAC rules prohibiting transactions with certain foreign countries or their nationals.

Rule: 31 C.F.R. §103.122(b)(4).

Resources: [NTM 02-21](#), page 6, n.24; 31 C.F.R. § 103.122.

7. Notice to Customers

FINRA Comments:

The CIP Rule requires you to provide adequate notice to customers that you are requesting information from them to verify their identities. You may provide such notice by a sign in your lobby, through other oral or written notice, or, for accounts opened online, notice posted on your Web site. No matter which methods of giving notice you choose, you must give it before an account is opened.

FINRA has produced a [Customer Identification Program Notice](#) to assist firms in fulfilling this notification requirement. Please refer to [FINRA's AML Web page](#) for further details.

We will provide notice to customers that the firm is requesting information from them to verify their identities, as required by federal law. We will notify customers using the following language:

Important Information About Procedures for Opening a New Account

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

What this means for you: When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

Rule: 31 C.F.R. §103.122(b)(5).

8. Reliance on Another Financial Institution for Identity Verification

We may, under the following circumstances, rely on the performance by another financial institution (including an affiliate) of some or all of the elements of our CIP with respect to any customer that is opening an account or has established an account or similar business relationship with the other financial institution to provide or engage in services, dealings or other financial transactions:

- when such reliance is reasonable under the circumstances;
- when the other financial institution is subject to a rule implementing the anti-money laundering compliance program requirements of 31 U.S.C. § 5318(h), and is regulated by a federal functional regulator; and
- when the other financial institution has entered into a contract with our firm requiring it to certify annually to us that it has implemented its anti-money laundering program and that it will perform (or its agent will perform) specified requirements of the customer identification program.

Rule: 31 C.F.R. § 103.122(b)(6).

GENERAL CUSTOMER DUE DILIGENCE

FINRA Comments:

Customer Due Diligence (CDD) is the foundation of a strong AML compliance program that is broader than CIP. While CDD is not specifically required by the AML rules, it is not possible to have an adequate AML program or suspicious activity reporting program without conducting appropriate ongoing customer due diligence. CDD enables the firm to evaluate the risk presented by each customer and

provides the firm with a baseline for evaluating customer transactions to determine whether the transactions are suspicious and need to be reported. See [NTM 02-21](#), page 7.

You may deem some accounts to be of higher risk based on:

- *customer's actual or anticipated business activity;*
- *customer's ownership structure;*
- *anticipated or actual volume and types of transactions;*
- *transactions involving high-risk jurisdictions.*

Higher risk accounts should be subject to greater due diligence.

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

Such information may include:

- the customer's business;
- the customer's anticipated account activity (both volume and type);
- the source of the customer's funds.

For accounts that we have deemed to be higher risk, we may also obtain the following information:

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

We will also ensure that the customer information remains accurate by sending out 17a3 letters at least every 36 months.

FOREIGN CORRESPONDENT ACCOUNTS AND FOREIGN SHELL BANKS

Detecting and Closing Correspondent Accounts of Unregulated Foreign Shell Banks

FINRA Comments:

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

bank for which it maintains a correspondent account “at least once every three years” to maintain the safe harbor.

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

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

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

NOTE: If your firm does not establish, maintain, administer or manage correspondent accounts for foreign banks, state that this is your firm’s policy and describe the internal controls that your firm will implement to detect any attempt to open a correspondent account.

We will identify foreign bank accounts and any such account that is a correspondent account (any account that is established for a foreign bank to receive deposits from, or to make payments or other disbursements on behalf of, the foreign bank, or to handle other financial transactions related to such foreign bank) for foreign shell banks by *[describe procedure to detect such accounts]*. Upon finding or suspecting such accounts, firm employees will notify the AML Compliance Person, who will terminate any verified correspondent account in the United States for a foreign shell bank. We will also terminate any correspondent account that we have determined is not maintained by a foreign shell bank but is being used to provide services to such a shell bank. We will exercise caution regarding liquidating positions in such accounts and take reasonable steps to ensure that no new positions are established in these accounts during the termination period. We will terminate any correspondent account for which we have not obtained the information described in Appendix A of the regulations regarding shell banks within the time periods specified in those regulations.

Rules: 31 C.F.R. §§103.175, 103.177.

Certifications

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

Rules: 31 C.F.R. §§ 103.175, 103.177.

Resources: [31 C.F.R., Pt. 103, Subpt. I, App. A \(Certification Regarding Correspondent Accounts for](#)

Recordkeeping for Foreign Correspondent Accounts

FINRA Comments:

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

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

Rules: 31 C.F.R. §§ 103.175, 103.177.

Summons or Subpoena of Foreign Bank Records; Termination of Correspondent Relationships.

FINRA Comments:

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

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

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

When we receive a written request from a federal law enforcement officer for information identifying the non-publicly traded owners of any foreign bank for which we maintain a correspondent account in the United States and/or the name and address of a person residing in the United States who is an agent to accept service of legal process for a foreign bank's correspondent account, we will provide that information to the requesting officer not later than seven days after receipt of the request. We will close, within 10 days, any correspondent account for a foreign bank that we learn from FinCEN or the Department of Justice has failed to comply with a summons or subpoena issued by the Secretary of the Treasury or the Attorney General of the United States or has failed to contest such a summons or subpoena. We will scrutinize any correspondent account activity during that 10-day period to ensure that any suspicious activity is appropriately reported and to ensure that no new positions are established in these correspondent accounts.

PRIVATE BANKING ACCOUNTS/FOREIGN OFFICIALS

FINRA Comments:

Firms must have a due diligence program that is reasonably designed to detect and report any known or suspected money laundering conducted through or involving any private banking account maintained by or on behalf of a non-U.S. person, as well as the existence of the proceeds of foreign corruption in any such account. This requirement applies to all private banking accounts for non-U.S. persons, regardless of when they were opened. Accounts requested or maintained by or on behalf of "senior foreign political figures," which is defined below and includes their immediate family members and close known associates, require enhanced scrutiny. Senior foreign political figures are often referred to as "politically exposed persons" or "PEPs."

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

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

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

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

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

or government enterprise accounts (beyond salary amounts).

If we do not find information indicating that a "private banking" account holder is a "senior foreign political figure," and the account holder states that he or she is not a "senior foreign political figure," then additional enhanced due diligence is not required.

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

Rules: 31 C.F.R. §§ 103.175, 103.178.

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

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

We do not maintain any accounts (including correspondent accounts) with any foreign jurisdiction or financial institution. However, if FinCEN issues a final rule imposing a special measure against one or more foreign jurisdictions or financial institutions, classes of international transactions or types of accounts deeming them to be of primary money laundering concern, we understand that we must read FinCEN's final rule and follow any prescriptions or prohibitions contained in that rule.

MONITORING ACCOUNTS FOR SUSPICIOUS ACTIVITY

FINRA Comments:

Broker-dealers must establish risk-based procedures reasonably designed to detect and report suspicious transactions in order to comply with the BSA and FINRA Rule 3310. The risk of suspicious activity will vary for each firm depending on its size and location and based on its business model and the products and services it offers. Your firm can identify that risk by looking at the type of customers it serves, where its customers are located, and the types of products and services it offers. Given the wide variety of business models employed by small firms, it is paramount that your firm's monitoring procedures be tailored to your firm's business and identified risks. Higher risk accounts and transactions generally need to be subjected to greater scrutiny.

Your firm may monitor transactions manually or through automated systems or a combination of the two, as long as the system is reasonably designed to identify and report suspicious activity. Note that the types of suspicious activity that are reportable on SAR-SF are very broad and include, among other things, securities fraud.

We will manually monitor a sufficient amount of account activity to permit identification of patterns of unusual size, volume, pattern or type of transactions, geographic factors such as whether jurisdictions designated as "non-cooperative" are involved, or any of the "red flags" identified in Section 8. b. below.

We will look at transactions, including trading and wire transfers, in the context of other account activity to determine if a transaction lacks financial sense or is suspicious because it is an unusual transaction or strategy for that customer. The AML Compliance Officer or his or her designee will be responsible for this monitoring, will document when and how it is carried out, and will report suspicious activities to the appropriate authorities. Among the information we will use to determine whether to file a Form SAR-SF are exception reports that include transaction size, location, type, number, and nature of the activity. We will create employee guidelines with examples of suspicious money laundering activity

and lists of high-risk clients whose accounts may warrant further scrutiny. Our AML Compliance Officer will conduct an appropriate investigation before a SAR is filed.

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

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

Emergency Notification to the Government by Telephone

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

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

Rule: 31 C.F.R. § 103.19.

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

Red Flags

Red flags that signal possible money laundering or terrorist financing include, but are not limited to:

Customers – Insufficient or Suspicious Information

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

Efforts to Avoid Reporting and Recordkeeping

- Reluctant to provide information needed to file reports or fails to proceed with transaction.
- Tries to persuade an employee not to file required reports or not to maintain required records.

- “Structures” deposits, withdrawals or purchase of monetary instruments below a certain amount to avoid reporting or recordkeeping requirements.
- Unusual concern with the firm’s compliance with government reporting requirements and firm’s AML policies.

Certain Funds Transfer Activities

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

Certain Deposits or Dispositions of Physical Certificates

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

Certain Securities Transactions

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

Transactions Involving Penny Stock Companies

- Company has no business, no revenues and no product.
- Company has experienced frequent or continuous changes in its business structure.

- Officers or insiders of the issuer are associated with multiple penny stock issuers.
- Company undergoes frequent material changes in business strategy or its line of business.
- Officers or insiders of the issuer have a history of securities violations.
- Company has not made disclosures in SEC or other regulatory filings.
- Company has been the subject of a prior trading suspension.

Transactions Involving Insurance Products

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

Activity Inconsistent With Business

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

Other Suspicious Customer Activity

- Unexplained high level of account activity with very low levels of securities transactions.
- Funds deposits for purchase of a long-term investment followed shortly by a request to liquidate the position and transfer the proceeds out of the account.
- Law enforcement subpoenas.
- Large numbers of securities transactions across a number of jurisdictions.

- Buying and selling securities with no purpose or in unusual circumstances (*e.g.*, churning at customer's request).
- Payment by third-party check or money transfer without an apparent connection to the customer.
- Payments to third-party without apparent connection to customer.
- No concern regarding the cost of transactions or fees (*i.e.*, surrender fees, higher than necessary commissions, etc.).

Responding to Red Flags and Suspicious Activity

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

SUSPICIOUS TRANSACTIONS AND BANK SECRECY ACT REPORTING

FINRA Comments:

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

Rule: 31 C.F.R. §103.19.

Filing a Form SAR-SF

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

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

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

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

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

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

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

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

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

Currency Transaction Reports (CTR)

FINRA Comments:

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

and official foreign bank notes that are customarily used and accepted as a medium of exchange in a foreign country.

Our firm prohibits transactions involving currency and has the following procedures to prevent such transactions: All representatives will be advised of this prohibition, upon association and at least annually.

The Financial and Operational Principal, or designee, will regularly review, and evidence this review in writing, of the firm's records of customers' funds received to ensure that currency is not accepted. If we discover such transactions have occurred, we will file with FinCEN CTRs for currency transactions that exceed \$10,000. Also, we will treat multiple transactions involving currency as a single transaction for purposes of determining whether to file a CTR if they total more than \$10,000 and are made by or on behalf of the same person during any one business day. We will use the [CTR Form](#) provided on FinCEN's Web site.

Rules: 31 C.F.R. §§103.11, 103.22.

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

Currency and Monetary Instrument Transportation Reports (CMIR)

FINRA Comments:

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

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

Rules: 31 C.F.R. §§103.11, 103.23.

Foreign Bank and Financial Accounts Reports (FBAR)

FINRA Comments:

The regulations under the BSA require broker-dealers to report and keep records related to any financial interest in, or signature authority over, a bank account, securities account or other financial account that the firm has in a foreign country in which the aggregate value of any accounts exceed \$10,000. Foreign

bank and financial accounts reports (FBARs) must be filed with the Commissioner of the IRS on or before June 30th of each calendar year for the previous year in which such accounts exist.

We will file a FBAR with the IRS for any financial accounts of more than \$10,000 that we hold, or for which we have signature or other authority over, in a foreign country. We will use the [FBAR Form](#) provided on the IRS's Web site.

Rule: 31 C.F.R. §103.24.

Resource: [FBAR Form](#).

Monetary Instrument Purchase

FINRA Comments:

No financial institution may issue or sell a bank check or draft, cashier's check, money order or traveler's check for \$3,000 to \$10,000 inclusive in currency unless it obtains and records certain information when issuing or selling one or more of these instruments to any individual purchaser. A financial institution issuing or selling one or more of these instruments to any individual purchaser in excess of \$10,000 will also need to file a CTR. See Section 12.b.

We do not issue bank checks or drafts, cashier's checks, money orders or traveler's checks in the amount of \$3,000 or more.

Transfers of \$3,000 or More Under the Joint and Travel Rule

When we transfer funds of \$3,000 or more, we will record on the transmittal order at least the following information: the name and address of the transmitter and recipient, the amount of the transmittal order, the identity of the recipient's financial institution, and the account number of the recipient. We will also verify the identity of transmitters and recipients who are not established customers of the firm (i.e., customers of the firm who have not previously maintained an account with us or for whom we have not obtained and maintained a file with the customer's name, address, taxpayer identification number, or, if none, alien identification number or passport number and country of issuance).

Rules: 31 C.F.R. §103.33(f)

AML RECORD KEEPING

Responsibility for required AML Records and SAR-SF Filing

Our AML Compliance Person and his or her designee will be responsible for ensuring that AML records are maintained properly and that SAR-SFs are filed as required.

In addition, as part of our AML program, our firm will create and maintain SAR-SFs, CTRs, CMIRs, FBARs, and relevant documentation on customer identity and verification (*See* Section 5 above) and funds transmittals. We will maintain SAR-SFs and their accompanying documentation for at least five years. We will keep other documents according to existing BSA and other recordkeeping requirements, including certain SEC rules that require six-year retention periods (e.g., Exchange Act Rule 17a-4(a) requiring firms to preserve for a period of not less than six years, all records required to be retained by Exchange Act Rule 17a-3(a)(1)-(3), (a)(5), and (a)(21)-(22) and Exchange Act Rule 17a-4(e)(5) requiring firms to retain for six years account record information required pursuant to Exchange Act Rule 17a-3(a)(17)).

Rules: 31 C.F.R. § 103.38, Exchange Act Rule 17a-8 (requiring registered broker-dealers subject to the Currency and Foreign Transactions Reporting Act of 1970 to comply with the BSA regulations regarding reporting, recordkeeping and record retention requirements), FINRA Rule 3310.

SAR-SF Maintenance and Confidentiality

We will hold SAR-SFs and any supporting documentation confidential. We will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a SAR-SF. We will refuse any subpoena requests for SAR-SFs or SAR-SF information and immediately tell FinCEN of any such subpoena we receive. We will segregate SAR-SF filings and copies of supporting documentation from other firm books and records to avoid disclosing SAR-SF filings. Our AML Compliance Officer will handle all subpoenas or other requests for SAR-SFs, and will retain such requests in confidential files for at least 5-years. We will share information with our clearing broker about suspicious transactions in order to determine when a SAR-SF should be filed. As mentioned earlier, we may share with the clearing broker a copy of the filed SAR-SF – unless it would be inappropriate to do so under the circumstances, such as where we file a SAR-SF concerning the clearing broker or its employees.

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

Resources: [NTM 02-47](#).

Additional Required

We shall retain either the original or a microfilm or other copy or reproduction of each of the following:

- A record of each extension of credit in an amount in excess of \$10,000, except an extension of credit secured by an interest in real property. The record shall contain the name and address of the person to whom the extension of credit is made, the amount thereof, the nature or purpose thereof and the date thereof;
- A record of each advice, request or instruction received or given regarding any transaction resulting (or intended to result and later canceled if such a record is normally made) in the transfer of currency or other monetary instruments, funds, checks, investment securities or credit, of more than \$10,000 to or from any person, account or place outside the U.S.;
- A record of each advice, request or instruction given to another financial institution (which includes broker-dealers) or other person located within or without the U.S., regarding a transaction intended to result in the transfer of funds, or of currency, other monetary instruments, checks, investment securities or credit, of more than \$10,000 to a person, account or place outside the U.S.;
- Each document granting signature or trading authority over each customer's account;
- Each record described in Exchange Act Rule 17a-3(a): (1) (blotters), (2) (ledgers for assets and liabilities, income, and expense and capital accounts), (3) (ledgers for cash and margin accounts), (4) (securities log), (5) (ledgers for securities in transfer, dividends and interest received, and securities borrowed and loaned), (6) (order tickets), (7) (purchase and sale tickets), (8) (confirms), and (9) (identity of owners of cash and margin accounts);
- A record of each remittance or transfer of funds, or of currency, checks, other monetary instruments, investment securities or credit, of more than \$10,000 to a person, account or place, outside the U.S.; and
- A record of each receipt of currency, other monetary instruments, checks or investment securities and of each transfer of funds or credit, of more than \$10,000 received on any one occasion directly and not through a domestic financial institution, from any person, account or place outside the U.S.

Rules: 31 C.F.R. §§ 103.33, 103.35(b).

CLEARING/INTRODUCING FIRM RELATIONSHIPS

We will work closely with our clearing firm to detect money laundering. We will exchange information, records, data and exception reports as necessary to comply [with our contractual obligations and] with AML laws. Both our firm and our clearing firm have filed (and kept updated) the necessary annual certifications for such information sharing, which can be found on [FinCEN's Web site](#). As a general matter, we will obtain and use the following exception reports offered by our clearing firm in order to monitor customer activity on our behalf, and we will provide our clearing firm with proper customer identification and due diligence information as required to successfully monitor customer transactions. We have discussed how each firm will apportion customer and transaction functions and how we will share information and set forth our understanding in a written document. We understand that the apportionment of functions will not relieve either of us from our independent obligation to comply with AML laws, except as specifically allowed under the BSA and its implementing regulations.

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

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

TRAINING PROGRAMS

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

Our training will include, at a minimum: (1) how to identify red flags and signs of money laundering that arise during the course of the employees' duties; (2) what to do once the risk is identified (including how, when and to whom to escalate unusual customer activity or other red flags for analysis and, where appropriate, the filing of SAR-SFs); (3) what employees' roles are in the firm's compliance efforts and how to perform them; (4) the firm's record retention policy; and (5) the disciplinary consequences (including civil and criminal penalties) for non-compliance with the BSA.

We will develop training in our firm, or contract for it. Delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos. Currently our training program is: 1. All associated persons are required to read the firm's AML Compliance Program and, on an annual basis, attest to their understanding and conformance with it. In addition, AML Compliance Program training will be provided during all annual compliance meetings. We will maintain records to show the persons trained, the dates of training, and the subject matter of their training.

We will review our operations to see if certain employees, such as those in compliance, margin, and corporate security, require specialized additional training. Our written procedures will be updated to reflect any such changes.

Rule: FINRA Rule 3310.

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

PROGRAM TO TEST AML PROGRAM

<i>FINRA Comments:</i>

You must choose whether your firm's personnel or a qualified outside party will perform this function. Your decision will depend on your firm's size and resources. Independent testing is generally to be performed annually (on a calendar year basis). A firm that does not execute transactions for customers or otherwise hold customer accounts and does not act as an introducing broker with respect to customer accounts (e.g., engages solely in proprietary trading or conducts business only with other broker-dealers) may generally perform an independent test every two calendar years. All firms should undertake more frequent testing than required if circumstances warrant.

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

Staffing

The testing of our AML program will be performed annually by either:

- an independent third party. Their minimum qualifications include familiarity with the PATRIOT Act, and prior experience in testing broker/dealer conformance with it; or,
- designated personnel of our firm. Their minimum qualifications include familiarity with the PATRIOT Act, prior experience in testing broker/dealer conformance with it. In lieu of having prior testing experience, such persons must have other qualifications and experience which demonstrate their ability to adequately conduct the requisite testing. To ensure that they remain independent, we will separate their functions from other AML activities by ensuring that their day-to-day employment responsibilities do not involve AML-related activities.

Evaluation and Reporting

After we have completed the testing, staff will report its findings to senior management, or to an internal audit committee. We will address each of the resulting recommendations.

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

MONITORING EMPLOYEE CONDUCT AND ACCOUNTS

We will subject employee accounts to the same AML procedures as customer accounts, under the supervision of the AML Compliance Officer. We will also review the AML performance of supervisors, as part of their annual performance review. The AML Compliance Officer's accounts will be reviewed by the Financial and Operational Principal. If the Financial and Operational Principal is also the AMLCO, another principal will be designated as responsible for this area.

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

CONFIDENTIAL REPORTING OF AML NON-COMPLIANCE

Employees will report any violations of the firm's AML compliance program to the AML Compliance Officer, unless the violations implicate the AML Compliance Officer, in which case the employee shall

report to AML Compliance Officer's designated supervisor. Such reports will be confidential, and the employee will suffer no retaliation for making them.

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

ADDITIONAL AREAS OF RISK

The firm has reviewed all areas of its business to identify potential money laundering risks that may not be covered in the procedures described above and no other significant risk areas were identified. The firm will conduct this review at least annually and will update its AML Compliance Program as necessary to address additional areas of risk.

SENIOR MANAGER APPROVAL

I have approved this AML compliance program in writing as reasonably designed to achieve and monitor our firm's ongoing compliance with the requirements of the BSA and the implementing regulations under it. This approval is indicated by signatures below.

Rules: FINRA Rule 3011.

Signed: Chester Hebert

Title: President

Date: 07/30/2010

APPENDIX

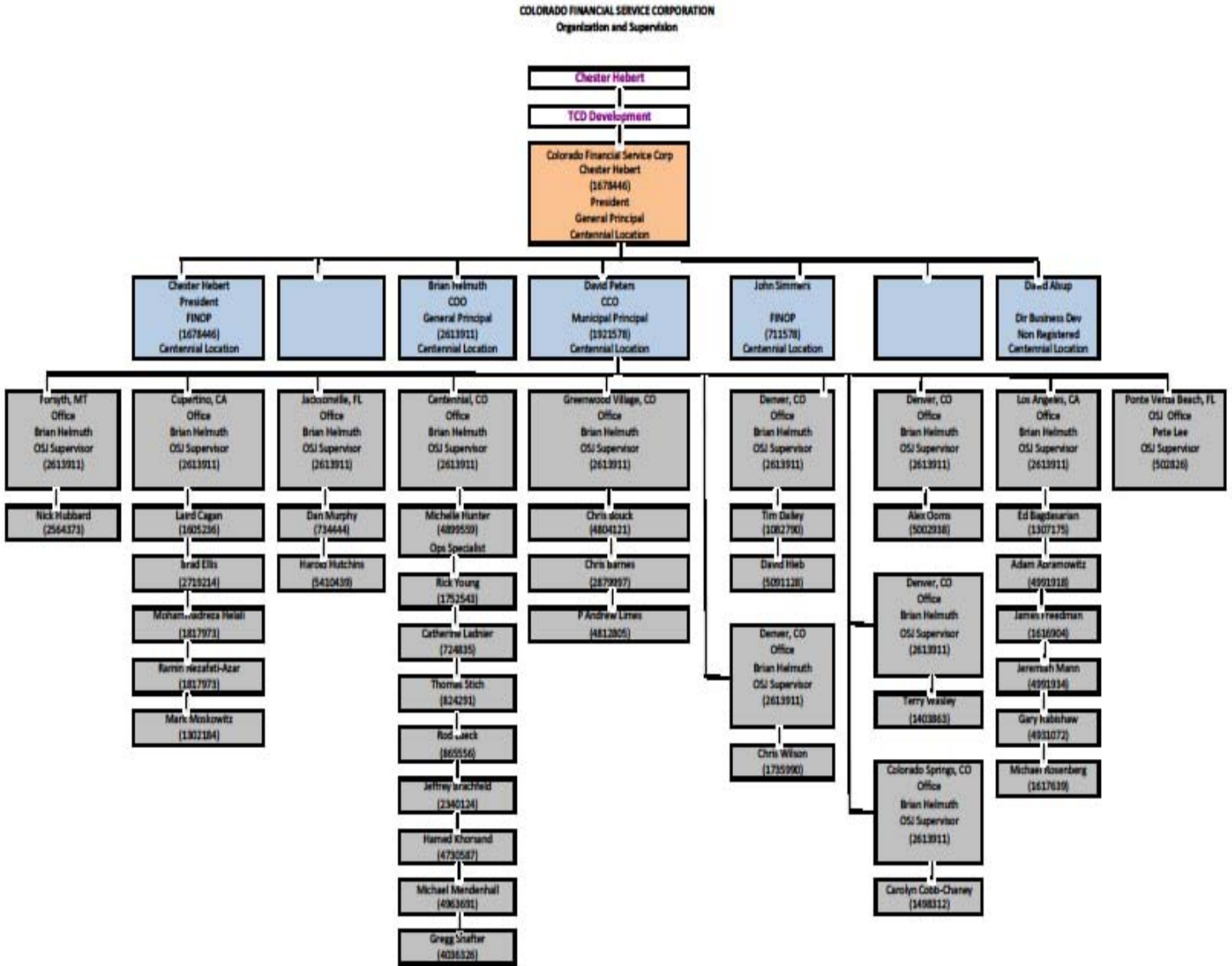
Departments and Supervisors

Area Supervised	Supervisor's Name	
3012 Test and Review	David Peters	1/1/2009
Accounting	Brian Helmuth	1/1/2008
AML	Brian Helmuth	1/1/2008
Back Office Operations	Brian Helmuth	1/1/2008
Business Continuity Plan	Chet Hebert	1/1/2008
Commissions	Brian Helmuth	1/1/2008
Complaints	Chet Hebert	1/1/2008
Compliance	David Peters	1/1/2009
Customer Questions	Chet Hebert	1/1/2008
Daily Office Administration	Brian Helmuth	1/1/2008
Financial Reporting	Chet Hebert	1/1/2008
Insider Trading	Chet Hebert	1/1/2008
Marketing	Chet Hebert	1/1/2008
Municipal Compliance	David Peters	1/1/2009
Product Support – DPPs	Chet Hebert	1/1/2008
Product Support – Investment Banking	Chet Hebert	1/1/2008
Product Support – Private Placements	Chet Hebert	1/1/2008
Product Support – Mutual Funds	Brian Helmuth	1/1/2008
Product Support – VA's	Brian Helmuth	1/1/2008
Product Support – Variable Life	Brian Helmuth	1/1/2008
Registrations, Licensing, CRD	David Peters	1/1/2009
Suitability	Brian Helmuth	1/1/2009
Watch List and Restricted List	Chet Hebert	1/1/2009
WSP Update/Maintain	David Peters	1/1/2009
WSP's	Chet Hebert	1/1/2008

Outsourced Functions, Responsible Parties, and Supervisors

Function	Responsible Party	Supervisor	Outsource Cert On File
CPA - Accounting	Cordovano & Honeck LLP	Chet Hebert	01/22/2009
Email Retention	SMARSH	Chet Hebert	02/08/2008
Data Backup	I365 – FKA Evault	Chet Hebert	01/16/2009
3 rd Party Audits	The Compliance Department, Inc.	Chet Hebert	01/20/2009
Back Office Services	TCD AdminSolutions	Chet Hebert	01/20/2009

CFSC Organizational Structure





Colorado Financial Service Corporation

Outside Business Disclosure

RR Name: _____ RR Number: _____

1. Are you employed by, or do you accept compensation from any outside business (activity other than as a passive investment) outside the scope of your relationship with your broker-dealer?
Yes ___ No ___
2. Are you a member of a Board of Directors or a trustee for any profit or non-profit organization?
Yes ___ No ___
3. Are you a trustee or co-trustee on any account other than those of your immediate family?
Yes ___ No ___
4. Are you a general partner or limited partner in any partnership or are you involved in any entity that creates or packages limited partnerships? Answer this for any partnership you may be involved with – regardless of whether or not you feel it is securities related.
Yes ___ No ___
5. Are any clients solicited to invest in the partnership(s) referred to in the previous question?
Yes ___ No ___

Complete a separate disclosure report for each activity (or account) referred to in above answers.

Name under which business is conducted: _____

Nature of business or relationship: _____

Date of inception: _____ Time devoted to business: _____

Is time spent during business hours? _____ Position or title: _____

List your specific duties or powers: _____

Are other registered persons not associated with Colorado Financial Service Corp. affiliated with this business?

Yes ___ No ___

Did you assist in raising capital for this organization?

Yes ___ No ___

If yes, explain: _____

List details of your compensation and how paid: _____

Do you have signatory authority on the investment or checking accounts for this organization or their accounts?

Yes ___ No ___

Additional details may be requested to answer this request or on an ongoing basis for our review. You are required to file an updated report when any of the above information changes.

Registered Representative Signature _____

Date _____

OSJ Manager Signature _____

Date _____

APPROVED BY Colorado Financial Service Corporation Title _____

Date _____

NOT APPROVED Colorado Financial Service Corporation Title _____

Date _____

Outside Business Activity Disclosure Report

Colorado Financial Service Corporation
Page Two

1. Are you a member of any insurance marketing organizations not affiliated with Colorado Financial Service Corporation?

Yes _____ No _____

2. List the name, address and supervising principal of the insurance marketing organization(s)

- a. Organization Name: _____
b. Supervising Principal _____
c. Address: _____
d. City, State, Zip: _____

3. List the insurance carriers and gross for which you actively write and service cases:

- a. _____ \$ _____
b. _____ \$ _____
c. _____ \$ _____
d. _____ \$ _____
e. _____ \$ _____
f. _____ \$ _____
g. _____ \$ _____
h. _____ \$ _____
i. _____ \$ _____

4. Do you operate your own Registered Investment Advisor (RIA)? Yes _____ No _____

- a. RIA Legal Name: _____
b. RIA CRD Number: _____
c. Total RIA Assets under management: \$ _____

5. Are you registered with RIA not affiliated with Colorado Financial Service Corporation? No _____

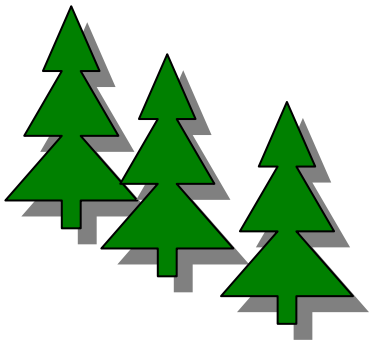
- a. RIA Legal Name: _____
b. RIA CRD Number _____
c. Assets under management by yourself: as IAR \$ _____

6. Do you operate your practice under a name other than Colorado Financial Service Corporation? No _____

- a. Are you incorporated? Yes _____ No _____
b. Provide copy of Corporate Tax return for prior two years.
c. Provide proof of state/local registration.

7. List any professional designations which you have completed:

- a. Certified Financial Planner _____ Date: _____
b. Certified Public Accountant _____ Date: _____
c. Chartered Life Underwriter _____ Date: _____
d. Chartered Financial Consultant _____ Date: _____
e. Attorney _____ Date: _____
f. Life Underwriter Training Council Fellow _____ Date: _____
g. _____ Date: _____
h. _____ Date: _____



Colorado Financial Service Corporation

Change of Broker-Dealer Request

TO:

Name of Fund Company or Variable Insurance Company

Address of Fund Company

City, State, Zip

RE:

Account Title

Address of Record

City, State, Zip

Account Number

Product Name

By my signature below, you are hereby requested to change the broker-dealer of record for the above referenced account:

From:

Old Broker-Dealer

Old Broker-Dealer Address

Dealer No: _____ RR No: _____

RR Name: _____

To:

Colorado Financial Service Corporation (CRD 104343)
Centennial, Colorado

Dealer No: _____ RR No: _____

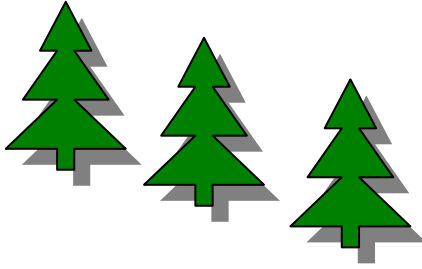
RR Name: _____

Authorized Owner Signature: _____

Joint Owner Signature: _____

Accepted For Firm By: _____ OSJ Principal Signature	_____ Date
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Attach copy of recent statement for reference.



*Colorado
Financial Service Corporation*

VARIABLE CONTRACT REPLACEMENT FORM

VARIABLE CONTRACT REPLACEMENT FORM

This represents my request and your authorization to sell or 1035 Exchange my investment in _____
_____ and invest all or part of the proceeds in _____

As evidence by my initials for each item and signature below, I do hereby acknowledge and understand that:

It is Colorado Financial Service's policy to *not* recommend the exchange of an annuity for another unless the client's investment or personal objectives can be better served.

I will have to pay a surrender charge of \$ _____ or _____ % on the product I am liquidating (approximate).

The replaced variable product expenses are:

The replacement variable product expenses are:

The replacement variable product has the following features not found or enhanced in the replaced variable product:

Signed: _____
Client Signature

Date

Signed: _____
Joint Owner Signature

Date

To be completed by the Registered Representative:

Material facts on which I based my recommendations to replace one contract for another contract:

RR Signature

Date

OSJ/BM Signature

Date