COR Clearing, LLC

Correspondent Guidebook for Heightened Risk Securities

Applicable to JOBS Act Securities, Non-NMS Stocks, Certificated and Restricted Securities

Updated June 15, 2015
NOTICE TO CORRESPONDENTS:

COR Clearing LLC ("COR") is fully committed to the processing of JOBS Act Securities, Non-NMS Stocks, Certificated Securities and Restricted Securities (collectively, “Heightened Risk Securities”) whenever possible under the policies and procedures defined herein. Securities submitted for processing in a manner that deviates from these policies will not be approved for trading.

PENALTIES FOR FAILURE TO ADHERE TO POLICIES:

ANY VIOLATION OF THESE POLICIES MAY RESULT IN BUY-INS, RESTRICTIONS ON SERVICE, SUSPENSION OR TERMINATION OF CLEARING SERVICES AND/OR THE CLEARING AGREEMENT FOR INTRODUCING BROKER DEALERS ("IBD"), IN COR’S SOLE AND ABSOLUTE DISCRETION, AND WITHOUT LIMITATION, ALL AS SET FORTH IN EACH IBD’S CLEARING AGREEMENT.

Regardless of the imposition of any restrictions or other sanctions per the above, correspondents who fail to adhere to the policies in this guidebook and sell Heightened Risk Securities before receiving COR’s written LEGAL AND RISK DESK approvals will be penalized as follows:

- **First infraction**: Correspondent firm will be penalized in an amount equal to the greater of $500 or the commission earned on the subject trade (ie. no commission will be paid to the correspondent)
- **Second infraction**: Correspondent firm will be penalized in an amount equal to the greater of $1,000 or 2X the commission charged on the subject trade
- **Third infraction**: Correspondent firm will be penalized in an amount equal to the greater of $2,500 or 3X the commission charged on the subject trade

Shareholders that sell without approval from COR’s Risk Desk will be charged a penalty interest rate on funds posted with NSCC during the settlement period.
# Heightened Risk Securities
## Correspondent Guidebook

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I. Heightened Risk Securities -- General Policies

A. Purpose of Policies

In consideration of U.S. Congressional intent, codified in the JOBS Act, to assist the capital formation process for small businesses and to foster fluidity in U.S. capital markets, COR Clearing (“COR”) has chosen to continue to accept JOBS Act Securities, Non-NMS Stocks, Certificated Securities and Restricted Securities (collectively, “Heightened Risk Securities” as defined herein) for deposit and sale under a set of rigorous compliance procedures.

COR has established the policies and procedures in this guidebook to assure the transactions in Heightened Risk Securities comply with the securities regulations promulgated under the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended, as well as FINRA Reg. Notice 09-05 and other relevant FINRA rules.

The trading of Heightened Risk Securities entails a high degree of financial and legal risk for brokerage firms and their clients. These securities often involve issuers with more lenient financial reporting requirements, less available market data, high volatility, limited liquidity, and increased regulatory burdens. As a result of these factors, many clearing firms have imposed blanket prohibitions against the deposit and subsequent sale of such securities.

Clearing firms that continue to accept the deposit of Heightened Risk securities face the following general risks:

1) **“Buy in” exposure**—where a firm is forced to buy back an illiquid position at a potentially higher price due to a client’s failure to comply with the securities regulations mentioned above

2) **“Regulatory” exposure**—where a firm is forced to pay penalties for permitting transactions which are out of compliance after “red flags” should have alerted the firm to maintain a higher standard of care

3) **“Money laundering” exposure**—where a firm is implicated in a money laundering or other fraudulent scheme that has been made possible through a private transaction with limited documentation or unconventional consideration

As a result of the risks outlined above, the following categories of securities are subject to review prior to sale:

1) All Non-NMS Stocks, registered or unregistered (subject to legal and risk desk review)

2) All NMS Stocks that do not qualify for COR’s ACAT or Non-ACAT transfer process* (subject to legal review only)

*To qualify for COR’s ACAT or Non-ACAT transfer process, a depositor must present a brokerage statement or transfer agent statement verifying ownership of the securities being deposited.
Phase 1 Review of NMS Stock Deposits

The following types of NMS Stocks will required Phase 1 legal review:

a) Any NMS Stock submitted for deposit to COR via DWAC or DRS, which does not qualify for COR’s ACAT or Non-ACAT transfer process, shall require the submission of an “NMS Electronic Deposit Attestation” (see Sample Documents in Section VII. of this Guidebook)

b) Any NMS Stock submitted for deposit to COR in physical form shall require the submission of an “NMS Physical Deposit Attestation” (see Sample Documents in Section VII. of this Guidebook)

FEES: A processing fee of $250 shall be charged for Phase 1 Review. In the event that COR determines a Phase 2 legal review is necessary upon review of the above referenced forms, the $250 processing fee shall be credited toward any additional review fees.

SALE TIMING: If a correspondent believes its client has met the requirements to be exempt from a Phase 2 review, a COR correspondent may sell a client’s NMS Stock deposit upon submission of the above referenced paperwork for a Phase 1 review of an NMS Stock deposit. Any sales made with the expectation that a Phase 2 legal review will not be required shall be subject to buy-in in the event that COR determines a Phase 2 legal review is required.

Phase 2 Review of NMS Stock Deposits

The following types of NMS Stocks will require Phase 2 legal review, which shall encompass COR’s customary legal review for HRS deposits (less COR’s issuer letter and issuer letter refusal attestation requirements):

a) NMS Stock submitted for deposit to COR in physical form, which has not been validly registered

b) NMS Stock deposited via DWAC or DRS, that does not qualify for COR’s ACAT or Non-ACAT transfer process, has been held in electronic form as common stock for less than six months, and has not been validly registered

Notwithstanding the foregoing, free trading electronic shares in “Grey Market” bank companies or other financial institutions subject to regulations of the Office of the Comptroller of the
Currency, the Federal Reserve, or the Federal Deposit Insurance Corporation, whether or not NMS Stocks, shall not be subject to review.

FURTHER, COR RESERVES THE RIGHT TO DESIGNATE ANY SECURITY AS A “HEIGHTENED RISK SECURITY” FOR PURPOSES OF THESE POLICIES AT ANY TIME, REGARDLESS OF WHETHER SUCH SECURITY MEETS THE ABOVE PARAMETERS.

B. Applicability:

The policies described in this guidebook shall apply to all Heightened Risk Securities unless an exception is be granted by the COR’s Chief Legal Counsel or Head of Corporate Services. All requests for exceptions should be routed through COR Clearing’s Head of Corporate Services.

C. Key Definitions:

The definitions below may be helpful in understanding COR’s review procedures.

**Certificated Securities:** COR defines “Certificated Securities” as securities submitted to COR for trading in physical certificate form, whether or not a restrictive legend is included on the certificate.

**Heightened Risk Securities:** COR defines “Heightened Risk Securities” as all Non-NMS Stocks, Certificated Securities, Restricted Securities, and JOBS Act Securities, and any other securities defined by management from time to time.

**Individually Registered Securities:** COR defines “Individually Registered Securities” as securities that have been registered in an effective resale registration statement, which lists the depositing shareholder by name.

**JOBS Act Securities:** COR defines “JOBS Act Securities” to include securities issued under a special exemption from registration, as provided in the Jump Start Our Business Startups Act. JOBS Act Securities will only fall under the review criteria set forth in this guidebook if they are Non-NMS Stocks, certificated securities, or restricted securities.

**National Market System (NMS):** COR uses the industry standard definition for “National Market System.” The NMS facilitates trading of OTC stocks whose size, profitability, and trading activity meet specific criteria. Additionally, the NMS posts prices for securities on the NYSE and other regional exchanges simultaneously, allowing investors to obtain the best price.

**NMS Stock:** COR defines an “NMS Stock” as any NMS Security other than an option. This is the same definition found in the Code of Federal Regulations Rule 600(b)(47).

**NMS Security:** COR defines an “NMS Security” as “any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective
transaction reporting plan, or an effective national market system plan for reporting transactions in listed options.” This is the same definition found in the Code of Federal Regulations (Rule 600(b)(46) (17 CFR 242.600(b)(46)).

In general, the term “NMS Security” refers to exchange-listed equity securities and standardized options, but does not include exchange-listed debt securities, securities futures, or open-end mutual funds, which are not currently reported pursuant to an effective transaction reporting plan. Examples of NMS Stocks include equities traded on NYSE, AMEX or NASDAQ.

**Non-NMS Stocks**: COR defines “Non-NMS Stocks” as all publically traded equity securities not meeting the criteria for NMS Stocks defined above. Examples of Non-NMS Stocks are those trading on the OTCBB, OTC Markets and Pink Sheets.

**Restricted Securities**: COR defines “restricted securities” as securities either now or at any prior time carrying a restrictive legend. Restricted securities are typically obtained through a private placement, convertible debt instrument, service agreement, employee compensation agreement, share exchange agreement, settlement agreement, or other private transaction.

Restricted securities may be held in companies that are listed on a major exchange. **NEITHER AN EXCHANGE LISTING NOR THE PRICE AT WHICH A COMPANY’S SHARES TRADE HAVE ANY BEARING ON WHETHER COR WILL CLASSIFY A SHAREHOLDER’S SHARES AS “RESTRICTED.”**

**Third Party Transactions**: COR defines “Third Party Transactions” or “Private Party Transactions” as transactions that occur when the current holder of a security has not purchased his security in a public market. Rather, the shareholder has obtained his shares (or an asset which can be converted into shares) from someone other than the issuer, or from the issuer in a transaction other than a private placement. Third party transactions include debt conversions, securities acquired as part of a reverse merger, securities acquired as payment for investment banking services, securities acquired as payment for consulting services (other than those paid directly by the issuer), etc.

COR is willing to facilitate the receipt and sale of securities obtained through Third Party or Private Party Transactions so long as the processes and procedures outlined in this guidebook are followed.

**VFIN**: COR uses the term “VFIN” in this document in reference to the firm COR uses for executing clearing execution named VFinance, Inc.

**D. General Policies on Receipt of Heightened Risk Securities**:

These policies will be applied to the above referenced Heightened Risk Securities coming into COR via physical deposit, DWAC or DRS (See policies for ACATs and Partial ACATs below).
No receipt of shares or assets convertible into such shares (including restricted stock or warrants) via DWAC deposit, or free delivery through DTCC, or partial ACATS will be accepted in stocks on the lower two tiers of Pink Sheets.

Any and all receipts will be deposited only in accounts of the registered owner.

Positions will not be moved via journal entry or other mechanism between and/or among accounts.

Positions will not be “delivered free” or “DTC’d” to third parties.

Positions will only be accepted as a free delivery to DTC if documentation is presented showing the delivering account is like-titled.

Assets attained through a third party transaction will be subject to additional review prior to being accepted and approved for deposit (See Third Party Transaction Policy).

**Sales of Heightened Risk Securities in any account are prohibited unless such securities have been reviewed and approved by both COR’s Stock Receipts Department and Risk Desk prior to sale, unless otherwise exempted by terms set forth in this guidebook.**

**Sales of Heightened Risk Securities are prohibited in DVP (5B) accounts.**

Payment of proceeds from sales of Heightened Risk Securities may be sent via wire, ACH or check once clean shares are received from the transfer agent. COR will only allow disbursements to be made to the registered owner of the account. COR will not honor any disbursement requests to third parties.

Any position in Heightened Risk Securities that is received into an account that is larger than the limits provided in the procedures that follow, can only be liquidated in accordance with COR’s illiquid policy (See procedures on “Illiquid Policy”).

COR reserves the right to deny any transaction in which a transfer agent has failed to promptly transfer securities or have been identified as problematic.

All correspondents are responsible for ensuring their compliance with FINRA Regulatory Notice 09-05 regarding Unregistered Resale of Restricted Securities. A letter of responsibility signed by a Supervising Principal of the correspondent must accompany all certificate deposits, DWAC requests, ACATs or free receipt of shares via DTCC for approval.

**E. General Procedures for receipt of ACATs and Partial ACATs:**

These policies will be applied to the above referenced Heightened Risk Securities coming into COR via ACATs and Partial ACATs.

All Heightened Risk Securities received via ACAT or Partial ACAT shall be exempt from COR’s legal review requirement if valued at less than (a) $10,000, or (b) less than 100,000 shares and $25,000 in market value. **However, no positions shall be exempt from obtaining COR’s Risk Desk approval prior to sale.**

Upon receipt of information via the ACAT form or via the ACAT system, COR’s Account Transfer Department will notify the correspondent firm of an incoming transfer that includes Heightened Risk Securities as defined by COR.

At that time the correspondent will be instructed that these positions will need to be reviewed and approved prior to any sales occurring in that security.
• All documentation and information applicable to these policies must be sent to COR’s Stock Review area to initiate that process.
• In the event the securities were purchased in the open market, trade confirmations must be submitted to document that activity. (A $100 review fee will be assessed for reviewing trade confirmations or statements that exceed 10 pages.)
• The security position will have a REST restriction on the specific asset until the review and approval has been completed. A SPAD note will be put on the account indicating the restriction.
• Upon completion of the approval, COR’s Stock Receipt department will move the position back to the original security or will remove the REST restriction and it will reflect as free trading in the customer account. A SPAD note will be put on the account to document the status change.

F. Special Procedures for Deposit of Certificates by $5,000 BD:

• Certificates may be sent directly to COR’s Stock Receipt Department by the client, providing all customer signatures are notarized.
• Certificates will be received into the client account and held in safekeeping (not saleable).
• Upon receipt of a complete review package meeting the requirements set forth in this guidebook, COR would begin its legal review process.

G. Special Procedures for Deposit of Certificates by $50,000 or greater BD:

• Certificates and all appropriate paperwork should be approved by the correspondent prior to delivery to COR’s Stock Receipt Department.
• Certificates and all paperwork sent to COR’s Stock Receipt Department should be accompanied by a Letter of Transmittal, detailing all items included in the package.
• Upon receipt of completed paperwork (see section on Document Requirements) and instruction from the correspondent, the certificate deposit and paperwork will be put through the review process.

H. General Procedures for Review of Physical Certificates Prior to Sale:

• All shareholders seeking to sell NMS stocks deposited in physical form, whether or not the certificates for such securities bear a legend, must provide an attestation as found in the forms section of this guidebook, attesting to whether the securities were originally issued as restricted.
• If the securities were not issued as restricted, no further review is required for deposit. If the securities were issued as restricted, the same review requirements for Heightened Risk Security deposits will apply.

I. General Procedures for Review of Heightened Risk Securities Prior to Sale:

• All shareholders seeking to sell Heightened Risk Securities are required to submit a
complete packet of the relevant items described in the Checklist of Required Documents incorporated this guidebook.

- Upon obtaining the items listed in the Checklist of Required Documents (completed in their entirety), COR’s Stock Review will begin to process the deposit. COR will attempt to process the transaction on the day of receipt; however, transaction processing may take up to 10 business days after receipt of required documents per deposit. Rush service is available at a premium charge.

- **COR’s legal review of Heightened Risk Securities involves**: 1) review of applicable registration statements or legal exemptions from registration that may be available to the shareholder to permit resale (includes a review of the issuer’s SEC filings to determine if the issuer is a shell or was a prior shell), 2) review of the chain of consideration, to assure that the shares have been validly acquired, 3) review of the client’s relation to and/or holdings in the issuer to determine if the client should be deemed an affiliate, and 4) review of the client’s deposit application as a whole for general red-flags per FINRA Reg. Notice 09-05, which may put COR on notice of an illegal, unregistered distribution of securities.

- **COR’s legal review of “Individually Registered Securities” in Non-NMS Stocks involves**: 1) review of the issuer’s registration statement to verify that the selling shareholder is listed by name, 2) review of the issuer’s registration statement to determine if the information contained therein should be deemed stale, 3) review of the issuer’s reporting status, 4) review of whether the client should be deemed an affiliate of the issuer, and 5) review of the client’s deposit application as a whole for general AML red-flags per FINRA Reg. Notice 09-05.

- No sales of Individually Registered Securities in Non-NMS Stocks may be made until the subject certificates have been approved for trading by COR’s Stock Receipts Department and COR’s Risk Desk. After receiving an initial legal approval from the Stock Receipts Department, a correspondent must contact COR’s Risk Desk on the day of sale for permission to sell and share limitations. Failure to receive approval on the day of sale from the risk department may result in penalties or buy-ins. Any losses will be assessed to the correspondent firm. Approvals for the sale of Individually Registered Securities may be limited to designated selling windows. During an approval period, a selling shareholder may sell approved shares through multiple trades without incurring multiple review fees.

- Unless otherwise stated herein (see Section I. below), no sales of Heightened Risk Securities may be made until the subject positions have been approved for trading by COR’s Stock Receipts Department and COR’s Risk Desk. After receiving an initial legal approval from the Stock Receipts Department, a correspondent must contact COR’s Risk Desk on the day of sale for permission to sell and share limitations. Failure to receive approval on the day of sale from the risk department may result in penalties or buy-ins. When a deposit has been approved for sale, COR’s Stock Receipt Department will notify the correspondent firm that the trading restriction has been lifted. In the case of restricted physical certificate deposits, correspondents must provide an issuer letter (or other substitute documentation as permitted per this guidebook) verifying that the subject shares are freely tradable for trading to be permitted immediately.
upon COR’s Risk Desk Approval. Otherwise, the subject certificate(s) must have already cleared transfer prior to any sales taking place.

- In the event a firm sells Heighted Risk Securities prior to being notified by COR that sales have been approved, that sale may be bought in. Any losses will be assessed to the correspondent firm. The remedy for this policy violation in this regard is not limited to a potential buy in. COR reserves the right to impose any appropriate remedy for a violation of these policies. All correspondents are responsible for ensuring their complicity with FINRA Regulatory Notice 09-05 regarding Unregistered Resale of Restricted Securities.

J. **Trading Windows for Prior Shell Companies:**

- COR will not permit the trading of securities in current shell companies when a selling shareholder is not listed by name in a current and effective registration statement.
- In the event that COR deems an issuer to be a prior shell, COR will require the issuer to maintain status as a current reporting company under the Securities Exchange Act of 1934 in order to permit trading in the issuer’s securities.
- Deposits in prior shells can only be approved for predetermined trading windows—with each trading window expiring on the date that the issuer’s next quarterly financials are due.
- During a trading window, a selling shareholder may sell approved shares through multiple trades without incurring multiple review fees.
- In the event that a client executes a trade after a trading window expires, without first getting approval from COR, the client will be charged a trading window penalty (See Heightened Risk Security Fee Schedule).
- In order to avoid a trading window penalty, a client will have three options:
  
  1) Notify COR that the client wishes to extend into the next trading window for the fee referenced in the Heightened Risk Security Fee Schedule, and agree to stop trading on the date the current window expires until the issuer’s new quarterly financials are published on EDGAR;
  
  2) Notify COR that the client wishes to stop trading and place its securities in safekeeping; or,
  
    Notify COR that the client wishes to stop trading and have its certificates returned to name and address of record, DWAC’d to the transfer agent or delivered to an account with the same title through the ACAT system.

K. **“Follow on” Stock Reviews:**

- In the event a client seeks to deposit common stock acquired through the conversion

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1 No fee will be imposed to extend a trading window for a security that was approved for sale 30 days or fewer prior to the current trading window expiring.
of preferred shares or convertible note, through the exercise of warrants, or through a corporate action such as a stock split or dividend, and said common stock can be classified as an Heightened Risk Security, said common stock will be subject to COR’s procedures for HRS review.

- If the common stock referenced above is acquired subsequent to a prior transaction (no more than six months prior) wherein the underlying securities from which the common stock is derived was already reviewed, and no new consideration is now being introduced, the new common stock being deposited will qualify for an HRS “follow on” review.

- A client with a follow on deposit is responsible for submitting only a new Client Questionnaire, Client Acknowledgement, a copy of the conversion, exercise, or issuance notice that the client has submitted to the issuer or transfer agent (this can be handled by COR’s Corporate Actions dept.) and the items designed below.
  - If the shares to be received on conversion are not DWAC or DTC eligible, the correspondent must submit an original stock certificate and signed stock power prior to being permitted to sell. Shares must be received into the account in good order as segregated shares prior to any sale transaction.
  - If the shares to be received are DWAC or DTC eligible, the correspondent must submit all documentation required by the issuer’s transfer agent to facilitate delivery of the subject shares. Shares must be received into the account in good order as segregated shares prior to any sale transaction.

- A correspondent must receive a notice of legal approval from COR’s Stock Receipts department prior to selling any follow on deposit. Risk Desk approval is also necessary prior to the sale of all Non-NMS follow on deposits, unless otherwise exempted under the terms set forth in this guidebook.

- NMS and Non-NMS common stock subject to follow on review must be held in good order (i.e. showing in the COR account as segregated shares) prior to executing a sale of shares. Selling shares without meeting this requirement may result in immediate buy-in.

L. Canadian Securities:

- Clients of COR’s US correspondents that wish to deposit restricted Canadian securities with COR will be subject to COR’s standard procedures for Heightened Risk Securities review, plus the following additional requirements:
  1. Any legal opinion supplied must be from a reputable Canadian law firm in good standing, and acceptable to COR
  2. Deposits may be subject to a supplementary review by a broker/dealer of COR’s choosing located in Canada, familiar with Canadian securities law.
II. Heightened Risk Securities -- Certificate Receipt Policy

A. Purpose of Policies:

Positions in Heightened Risk Securities are often delivered in physical certificate form. This can create heightened risk for introducing firms and clearing firms for a number of reasons.

- First, issuers have the ability to cancel certificates after certificates have been deposited and sold through a clearing firm. When this occurs, DTCC places a short in the clearing firm’s account that results in an immediate “buy in” of the position. Many times when this occurs, the clearing firm is not notified of the “stop transfer” placed on the certificate for extended periods of time (this can be up to 6 months or longer after the initial deposit). These incidents have resulted in, among other things, capital violations which have forced introducing firms out of business and caused millions of dollars in losses to clearing firms.

- Second, issuers and shareholders have the ability to instruct transfer agents to issue share certificates without valid proof of consideration. Physical certificates are often issued without a trade confirmation from a purchase on an open market. Therefore, physical certificates can be used and manipulated to launder money and/or potentially defraud other investors in the same issuer.

COR believes that transactions involving physical certificates should be accommodated, so long as certain risk management mandates and protocols are followed.

B. General Policies for Certificate Receipt:

- Deposits of physical certificates (via ACATs, conversions or free delivery) in any securities, including restricted securities or assets that are convertible into securities will not be accepted for the purpose of sale and/or liquidation if the issuer of the security is in the lower two tiers of the pink sheet rating system with OTC Markets (ie. securities with a “Stop Sign” or “Caveat Emptor” designation). Such deposits may be accepted into accounts and held in safekeeping, but sales in such securities will be restricted.

- Positions will not be moved via journal entry or other mechanism between and/or among accounts.

- Positions will not be “delivered free” to other firms other than by a settlement of a sale. Certificates will only be reissued in the name of the registered account holder.

- Assets obtained through a third party or private transaction will be subject to additional review documentation prior to being accepted for deposit. (See Third Party or Private Transaction Policy)

- Payment of proceeds from sales of Heightened Risk Securities can be sent via wire, ACH or check once the transaction has settled. COR will only allow disbursements to be made to the registered owner of the account. COR will not
honor any disbursement requests to third parties.

- Any position in Heightened Risk Securities that is received into an account that is larger than the limits provided in the procedures that follow, can only be liquidated in amounts according to the formula in procedures for “Sale of Illiquid Securities.” (See Procedures in Illiquid Policy)

- COR reserves the right to deny transactions for shareholders whose transfer agents have failed to promptly transfer securities or have been identified as problematic.

- Restricted security deposits (including restricted warrants or assets convertible into securities covered under this policy) will also need to be reviewed prior to sales occurring unless the transactions are considered sales under prospectus.
III. Heightened Risk Securities—DWAC/DRS Receipt Policy

A. Purpose of Policies:

To mitigate the risks previously discussed, COR has established the following policies and procedures for the receipt of Heightened Risk Securities via DWAC and DRS.

B. General policies:

- No receipt of shares will be accepted in stocks on the lower two tiers of the OTC Markets pink sheet rating system (See Attachment).
- DWACs and DRS will be deposited only in accounts of the registered owner.
- Positions will not be moved via journal entry or other mechanism between and/or among accounts.
- Positions will not be “delivered free” or “DTC’d” to third parties.
- DWACs and DRS will be accepted with applicable paperwork (See section on required documentation).
- Assets obtained through a third party transaction will be subject to additional requirement prior to being accepted for deposit. (See Third Party Transaction Policy)
- No sales may occur for positions being DWAC’d or DRS’d into an account until the asset has been reviewed and approved prior to sales taking place.
- Payment of proceeds from sales of OTCBB/Pink Sheet stocks may be sent via wire, ACH or check once the transaction has settled. COR will only allow disbursements to be made to the registered owner of the account. COR will not honor any disbursement requests to third parties.
- COR reserves the right to deny transactions with any transfer agent that has failed to promptly transfer securities or has been identified as problematic.
IV. Heightened Risk Securities– Third Party or Private Transactions

A. Purpose of Policies:

To mitigate the risks previously discussed, COR has established the following policies and procedures for the receipt of Heightened Risk Securities acquired in Third Party or Private Party Transactions.

B. General Policies:

- No positions acquired through Third Party or Private Party Transactions will be approved for sale in stocks on the lower two tiers of the OTC Markets pink sheet rating system (See Attachment). Positions in these lower tiers (including restricted stock or warrants) may be accepted into accounts for deposit via ACAT, but the sale of such positions will be prohibited.
- Positions will not be moved via journal entry or other mechanism between and/or among accounts.
- Positions will not be “delivered free” or “DTC’d” to third parties.
- Assets obtained through a third party transaction will be subject to additional review prior to being accepted for deposit.
- No sale of assets may occur until the position has been reviewed and approved per these procedures.
- Payment of proceeds from sales of securities obtained through Third Party and Private Party Transactions can be sent via wire, ACH or check once the transaction has settled. COR will only allow disbursements to be made to the registered owner of the account. COR will not honor any disbursement requests to third parties.
- Any position in Heightened Risk Securities received into an account that are larger than the limits provided in the procedures that follow, can only be liquidated in amounts according to the formula in procedures for “Sale of Illiquid Securities.” (See Procedures in Illiquid Policy)
- COR reserves the right to deny transactions with any transfer agent that has failed to promptly transfer securities or has been identified as problematic.
V. Heightened Risk Securities – Frequently Asked Questions

1. Does COR charge for performing its review services? Yes we do. All costs will be charged direct to the correspondent unless the correspondent instructs us in writing to bill the customer account in which the certificate(s) will be deposited. Any such written instructions to bill the customer must also contain an affirmative statement by the correspondent that it has disclosed the fee to its customer, and that it is directing COR to assess such charges to the client. Please see the section titled “Fee Schedule” for further details.

2. Does COR’s review service charge cover the processing/DGCC deposit fee if the deposit is approved? No, the DTCC processing fee or restrict stock processing fee, whichever is applicable, can and will be charged in addition to the review fee.

3. If my deposit request is rejected will I receive a written response explaining the reason for just rejection? Yes. COR will provide you with a summary explaining the findings based upon the information provided.

4. When a security is deposited, how long does it typically take until an “okay to sell” notice is given?

This depends on the type of security under review, as outlined below.

Prospectus Sales:
In instances where registered Non-NMS Stocks are held by a shareholder who is specifically listed by name in an issuer’s S-1 registration statement (also known as “Prospectus Sales”), the shareholder may sell upon submission of a Correspondent Questionnaire, Illiquid Policy Disclosure and Client Acknowledgement, and an approval by COR’s Stock Receipts Department and Risk Desk. An “Okay to Sell” notice for the sale of registered shares is typically given within 48 hours from the time of submission.

Non-prospectus Sales:
In instances where Heightened Risk Securities are held by a shareholder who is not specifically listed by name in the issuer’s S-1 registration statement (also known as “Non-prospectus Sales”), the “Okay to Sell” notice is typically given within 3-10 business days from the time of submission of a complete review packet, depending on the method of submission (See Checklist of Required Documents For Restricted Securities).

• Physical certificate deposits typically receive the “okay to sell” notice in 3-10 business days.
• DWAC deposits typically receive the “okay to sell” notice in 3-5 business days.

Non-prospectus sales can be reviewed and approved for sale within a 48 hour time period for an additional rush fee (See Fee Schedule).

5. Do these deposit review requirements include restricted stock and warrants? Yes. All restricted stock sales are prohibited prior to review. All restricted stock or warrant deposits will need to go through the same review and approval process as outlined in these procedures.

6. Do these review requirements include assets coming into an account from another broker/dealer via the ACAT system? Yes, the same requirements apply. Such assets will not be saleable until they have gone through the review and approval process.

7. Do the restriction on sales in Heightened Risk Securities apply to DVP (Institutional u5B) accounts? Yes, they do. No sales in Non-NMS Stocks as defined by COR may be transacted in a DVP account.

8. What does COR mean when utilizing the term “third party transaction?” COR defines third party transactions as those in which the current holder obtained the shares or a convertible asset in a private sale (i.e. not on the public market) from someone other than the issuer/company.

9. What happens if certificates are received lacking documentation? COR’s Stock Receipts Department will deposit the shares in safekeeping, and safekeeping fees will be charged to the client.

10. Does COR need original documents? COR needs the original stock certificate and “Stock Power” and/or “Corporate Authorization to Transfer Form.” The remaining required documents may be transmitted via e-mail or facsimile. COR’s Stock Receipt Department’s contact information is stockreceipts@corclearing.com or fax number 402-384-6161.

11. Is it required that a completed Questionnaire be sent in along with all other paperwork? Yes, in order for the Stock Review to proceed the correspondent questionnaire, signed by the correspondent is required. The correspondent retains the option to have its client signed the Questionnaire as well.

12. If a correspondent uses a different Questionnaire format, can that be used instead of the documents provided in this policy? No. To ensure we receive complete information the Questionnaire needs to be the COR approved form.

13. What happens if the sale occurs on a physical certificate prior to COR granting an “okay to sell” notice? Unapproved sales by the correspondent may be subject to an immediate “buy in” by COR. Any associated loss will be charged to the Introducing Firm.
14. **Should I send in certificates and all other paperwork along with any Third Party Transaction review request?** You can if you wish, but you do not need to submit the certificate in order to complete the Third Party Transaction review. The certificates will be held in safekeeping until the review is complete. In the event the deposit is rejected there will be additional out-of-pocket costs incurred for the return of the documents to you or your client.

15. **Would COR accept DWAC’s from the holders of securities derived from third party transactions if the Issuer provided the documents required by COR’s policies?** It is COR’s policy not to accept securities obtained via a third party transaction unless the transaction has gone through the review and approval process described in the “Third Party Transaction Policy” section of this document.
VI. Heightened Risk Securities Deposit Document Requirements and Checklist

A. Requirement for Deposits in NMS Stocks (ie. NYSE, NASDAQ, AMEX etc.)

☐ If in physical form, Physical Deposit Attestation (signed by shareholder)
☐ If in electronic form, and not deposited via COR’s ACAT or Non-ACAT transfer process, Electronic Deposit Attestation (signed by shareholder)

B. General Requirements for all other Heightened Risk Securities Deposits:

The following is a check list of the documentation that should be submitted along with your deposit requests. COR reserves the right to deviate from this checklist, given the totality of the particular facts and circumstances presented.

☐ Correspondent Questionnaire (signed by CCO or Supervisory Principal)
☐ Client Acknowledgement (signed by shareholder and CCO or Supervisory Principal)
☐ If Physical Cert. Deposit, Original Stock Certificate and Signed Stock Power
☐ If DWAC Deposit, Signed Stock Power PLUS Any Other Items Required by Issuer’s Transfer Agent
☐ Copy of Seller’s Representation Letter (signed by shareholder, confirming whether or not shareholder is to be treated as an affiliate)
  o Not required if selling shareholder is listed by name in an effective registration statement
☐ Issuer Letter*
  o Required with all certificated deposits when (1) a shareholder is depositing shares without a restrictive legend, or (2) a shareholder is depositing shares with a restrictive legend, and said shareholder wishes to sell after the restrictive period has elapsed, but before the issuer’s transfer agent removes the legend. The issuer letter must be signed by the issuer, and either notarized or attested to by a principal of the correspondent.
  o Type of Issuer Letters that can be used:
    a. Issuer Letter for certificates without a legend
    b. Issuer Letter for certificates with a legend
    c. Issuer Letter for convertible securities

Exceptions:
  a. Not required when the shareholder is referenced by name as a selling shareholder in an effective registration statement
  b. Not required when shares were issued by a court order
  c. Not required when an issuer supplies a letter directly to the transfer agent directing issuance of the subject shares, and a copy of such letter is provided
d. Not required in follow-on transactions when shares have been issued via a convertible note, convertible preferred shares, or exercisable warrants, when (i) the issuance of the original convertible/exercisable security can be verified by a signed board resolution and (ii) a signed issuer letter directed to the issuer’s transfer agent to make shares available in the event of a conversion/exercise has been provided

e. Not required in follow-on transactions (ie. note conversions, preferred shares conversions, and warrant exercises), if an Issuer Letter for Convertible Securities has been provided previously for the relevant convertible security

d. Not required in follow-on transactions when shares have been issued via a convertible note, convertible preferred shares, or exercisable warrants, when (i) the issuance of the original convertible/exercisable security can be verified by a signed board resolution and (ii) a signed issuer letter directed to the issuer’s transfer agent to make shares available in the event of a conversion/exercise has been provided

e. Not required in follow-on transactions (ie. note conversions, preferred shares conversions, and warrant exercises), if an Issuer Letter for Convertible Securities has been provided previously for the relevant convertible security

☐ Transfer Agent Warranty Letter *

- Only required with initial certificated deposits of “free trading shares” that do not carry a restrictive legend (this letter must be signed and notarized by the TA or signed by the TA and correspondent together)

*Not required for a DWACs, ACATS, DRS or for the initial review and approval of restricted securities.

Special Note for Follow-on Transactions:
Selling shareholders may elect not to provide an issuer letter or transfer agent letter for follow-on conversions of preferred shares or promissory notes. However, in such cases, selling shareholders will only have ten business days after selling their shares obtained in a follow-on transaction to transfer shares into their account before being subject to a buy in.

C. Supplementary Requirements for All Heightened Risk Security Deposits:

The following additional items may be required, in the discretion of COR’s legal review team, based upon the response to Question #12 of correspondent questionnaire.

1. Acquired from issuer, when selling shareholder is listed in an effective registration statement:

- ☐ Copy of the front cover of the registration statement (S-1 or S-3), and the section listing the selling shareholder by name and referencing the shares to be deposited
- ☐ Copy of legal opinion letter contained in the registration statement
- ☐ Copy of representation from independent accounting firm in the registration statement

2. Acquired from issuer, but not through a private placement:
Evidence of investment terms (purchase agreements, subscription agreements, promissory notes, consulting agreements, etc.)

Evidence of public disclosure of issuance (public filing, minutes of meeting of issuer’s board of directors authorizing issuance)

Evidence of consideration paid to the issuer (i.e. front and back copies of standard bank checks, front copy of check with copy of bank statement, front copies of cashier’s checks, front copies of money orders (only accepted in limited circumstances), or wire confirmations of funds being transmitted to, and/or received by, the issuer.) If an escrow agent is used for the private placement, we typically will require verification of the escrowing party in the related investment documents.

Opinion of counsel (Opinion of counsel will not be accepted from attorneys whose names appear on OTC Markets prohibited attorney’s list, or from law firms based outside of the United States, unless an attorney, not the law firm, that issues and executes the opinion is admitted to practice and in good standing in at least one State of the United States and the issuing attorney is located within the United States.)

In cases whereby a COR correspondent firm has managed a private placement, such required documentation may be submitted in bulk in its entirety for all participating clients. If requested in advance by the correspondent, such placements may undergo one bulk review and approval process. Any subsequent deposits that can be confirmed back to the original documentation will also need to go through the full review and approvals prior to sales will need to be confirmed by COR’s Stock Receipts Department upon completion of the review. These deposits will be processed in order of acceptance. See Fee Schedule under Investment Banking Fees and Employee Compensation Plan Fees.
4. Acquired in a private transaction, but not from the issuer:

- **Documents evidencing each private party sale transaction** in the chain of title (purchase agreements, consulting agreements, etc.)
- **Evidence of consideration paid on all transactions back to the original issuance** (i.e. front and back copies of checks, front copy of standard bank check with copy of bank statement, front copy of cashier’s check, front copy of money order (accepted only in limited circumstances), or wire confirmations evidencing the payee and the payer.) If an escrow agent is used for the private placement, we typically will require verification of the escrowing party in the related investment documents.
- **Documents evidencing original issuance of asset** (offering memorandum, public filing)
- **Opinion of counsel** (Opinion of counsel will not be accepted from attorneys whose names appear on OTC Markets’ prohibited attorney’s list, from an issuer’s staff attorney or from law firms based outside of the United States. Unless an attorney, not the law firm that issues and executes the opinion is admitted to practice and in good standing at least one State of the United States and the issuing attorney is located within the United States.)
- **Evidence the issuer has publicly reported** any private placements, debt issuances, convertible debt, etc.

5. Acquired in accordance with a debt conversion:

- **Documents evidencing investment in debt agreement**
- **Evidence of consideration paid back to original issuer** (i.e. front and back copies of standard bank checks, front copy of check with copy of bank statement showing check clearance, front of cashier’s check, front of money order (accepted in limited circumstances), or wire confirmations evidencing the both the payee and the payer.) If an escrow agent is used for the private placement, we will require evidence of the payment made to the escrow agent and evidence of payment made from the escrow agent to the issuer.
- **Evidence of debt obligation in public filing**
- **Opinion of counsel** (Opinion of counsel will not be accepted from attorneys whose names appear on OTC Markets’ prohibited attorney’s list, or from law firms based outside of the United States, unless an attorney, not the law firm that issues and executes the opinion, is admitted to practice and in good standing at least one State of the United States and the issuing attorney is located within the United States.)

In instances where a shareholder has gone through an initial review for a debt conversion, and subsequently received approval from COR to deposit and sell converted shares, the shareholder may qualify for a more limited review of the “follow-on conversions” that take place within six months of the initial conversion.
6. Acquired in accordance with a follow-on conversion of an already-approved deposit from a convertible note:

Shareholders converting debt instruments in follow-on conversions must submit only those items listed below to sell.

☐ A new Client Questionnaire
☐ A copy of the conversion/exercise notice that was used to convert/exercise into the shares
☐ If physical certificate deposit, original stock certificate and signed stock power
☐ If DWAC deposit, signed stock power PLUS any other items required by issuer’s transfer agent

7. Acquired from issuer via a registered direct offering (including shelf offerings):

☐ Copy of the executed subscription agreement
☐ Copy of the S-1 registration statement registering the shares in the offering, and any relevant follow-on prospectus
☐ Copy of press release confirming the pricing applicable to the shareholder’s purchase
☐ Evidence of consideration paid to the issuer may be requested within 3 to 5 days after approval, depending on the facts and circumstances (ie. COR’s history with the shareholder, capitalization of the shareholder, the totality of the other documentation provided, and the time sensitivity of the situation). Evidence of consideration may be provided in the form of a front and back copy of standard bank checks, a front copy of check with copy of a corresponding bank statement showing the check cleared, a front of cashier’s check, a front of money order, or a wire confirmation evidencing the payee and the payer. If evidence of consideration is not provided in the allotted window after approval is granted, the selling shareholder’s position will be subject to a buy-in.

D. Special Provisions Applying to NMS Stocks Subject to HRS Review

For NMS Stocks that require legal review, COR’s legal team shall have discretion to use the following items to substantiate payment for the subject shares (in addition to any evidence customarily used in the HRS review of Non-NMS Stock):

a) An issuer’s treasury order or issuance resolution calling for the issuance of the shares
b) An issuer’s letter specifically attesting to the depositor’s ownership of the shares
VII. Sample Standard Documents

On the following pages you will find samples of the following documents:

- Client Acknowledgement
- Correspondent Questionnaire
- Issuer Letter (for certifications carrying a legend, not carrying a legend, and for convertible securities)
- Issuer Letter Refusal Attestation
- Transfer Agent Letter
- Transfer Agent Letter (Refusal)
- Seller’s Representation Letter (for affiliates and non-affiliates)
- Physical Certification Deposit Attestation
Heightened Risk Security Deposits
Client Acknowledgement

To: My introducing broker dealer (“my broker dealer” or “introducing broker”) and COR Clearing, LLC, its officers, directors, parents, subsidiaries and affiliates (hereinafter collectively “COR”). COR and my broker dealer and/or introducing broker are hereinafter collectively referred to as “You” or “Your.”

I, the undersigned, acknowledge and affirm in connection with my desire to deposit and/or sell the below referenced security, or any other security in the same issuer obtained through a follow on conversion of a convertible promissory note or convertible preferred shares, that I am aware of and agree to the following terms and conditions:

1. I understand that delivery by me of these securities in certificate form does not constitute “good delivery” according to the policies of COR.
2. I acknowledge that these securities are owned by me and were acquired in a bona fide and legal transaction. Furthermore, I acknowledge there is no reason for concern by COR that these security positions will be called back by the issuer or subject to a stop transfer by the transfer agent.
3. I am aware that a sale of these securities may not be permitted by COR until such time that COR is satisfied that they are eligible for sale and transfer, without fear of impairment or violation of law or industry rule. I am also aware that my broker dealer and COR will take reasonable precautions to determine that, at present, there are no pending restrictions or a STOP transfer pertaining to any certificate. Finally, I understand that COR may require confirmation that the shares are fully paid and non assessable.
4. I acknowledge that I may not be able to sell the securities at the time of my choosing and the market price for these securities may change substantially between the time that I initially make the deposit and the time when I am actually able to make a sale. I acknowledge and accept the risk in this regard.
5. I acknowledge that it is the policy of COR to not allow Heightened Risk Securities to be transferred between and/or among accounts.
6. I acknowledge that it is the policy of COR to not facilitate the “free delivery” of securities deposited in certificate form to other DTC members. Should I desire to receive my securities, I acknowledge that COR will request a certificate representing my ownership in the issue to be delivered to me or my broker dealer, whichever is appropriate, through the issuer’s transfer agent and I will be responsible for all costs associated with such request.
7. I acknowledge that it is the policy of COR to deny the facilitation of third party wires. Should I desire that funds be wired out of my account I acknowledge that COR will only wire those proceeds to a like name account and accept full responsibility for the information provided to COR instructing it to send the wire.
8. I acknowledge that COR (at the instruction of my broker dealer) may impose reasonable charges for its services in connection with, inter-alia, the receipt, verification, and cost of financing of the referenced securities and agree to be bound by such. I acknowledge that I have been informed of the associated charges included in the attached Heightened Risk Securities Fee Schedule and Exhibit A to this Client Acknowledgement.
9. I acknowledge these securities are not the subject of any unrestricted sales of restricted securities.
10. In consideration of Your acceptance of these securities, I agree to indemnify and hold You harmless against any liability, loss or expense (including any legal fees and expenses reasonably incurred by You) arising out of the sale and/or transfer of these securities including but not limited to failure of these securities to transfer promptly or buy-in resulting from failure to deliver shares to the purchasing broker.

Client Print Name/Title ______________________ Date ______________________
Client Signature ______________________ Corporation Name ______________________

Introducing Broker Principal Acknowledgement

Signature ______________________ Date ______________________
Certificate Number ______________________

Page 1 of 2 (Client Acknowledgement)
Policy Relating to Heightened Risk Security Deposits

Client Acknowledgement

Exhibit A

Deposit Review Fees:
See attached Heightened Risk Security Fee Schedule
The review fee for the deposit of restricted shares is generally $1,000 per deposit, unless otherwise specified, and $400 per “follow on” conversion for multiple conversions of the same promissory note (or preferred shares) within a six month time frame. The review fee for the deposit of Independently Registered Shares of Non-NMS Stocks, in which the depositing shareholder is listed by name in a registration statement, is generally $250 per deposit, unless otherwise specified.

Illiquid Transaction Fees:

When COR is assessed an illiquid or market maker domination charge of greater than $25,000 by NSCC, COR passes a charge through to the account(s) which created the charge. The pass-through charge applied to each account is a percentage of the charge for which the account is responsible. COR’s standard charge is the broker call rate plus COR’s margin rate (i.e. currently, equal to an annualized interest rate of 6%).

For example, if COR received an illiquid charge of $100,000, then COR would multiply $100,000 by 6% for a result of $6,000. This $6,000 would then be divided by 365 to get a daily charge of $16.44. The resulting $16.44 daily charge will be passed through to the account holder for each day the trade remained open during the settlement period.

If multiple accounts create an illiquid or market maker domination charge, then the charge passed through is proportional to each account’s share of COR’s unsettled share position. Each day NSCC recalculates the capital requirements charged to COR. The accounts causing COR to post funds with NSCC will continue to be charged until COR is no longer being charged or until delivery has been made of the accounts’ shares.

Client accounts will be charged a penalty illiquid charge rate (above the customary illiquid charge rate) if positions are traded without COR’s legal department and risk desk approval.

I understand that I can contact my broker for further details relating to these fees.

_________________________  ________________
Client Initials                      Date

_________________________  ________________
Principal Initials                  Date
COR Clearing LLC
Heightened Risk Security Policy Questionnaire
(This questionnaire must be executed by the CCO or a supervisory principal of the correspondent firm prior to submission to COR Clearing)

1. Account Name: _________________________________________________________________

2. Account Number: _______________________________________________________________

3. Account Address: __________________________________________________________________

4. Issuer Name: ____________________________________________________________________

5. Issuer Symbol: ___________________________________________________________________

6. Number of Shares to be received, deposited or DWAC’d in: ____________________________

7. Number of Shares currently beneficially owned or controlled by client: ___________________

8. Total Aggregate Number of Shares beneficially owned or controlled by client (including family members, corporations, partnerships, etc.) in the last twelve (12) months: ________

9. List all Options, Warrants, other Derivative Securities, Promissory Notes, and other items readily convertible into equity and debt of the issuer beneficially owned or controlled by client (including family members, corporations, partnerships, etc):

   _______________________________________________________________________________
   _______________________________________________________________________________
   _______________________________________________________________________________
   _______________________________________________________________________________
   _______________________________________________________________________________

Provide the Aggregate Number of Shares that would be beneficially owned or controlled by client (including family members, corporations, partnerships, etc.), if Options, Warrants, Derivative Securities, Promissory Notes, etc., are converted to the equity securities of the issuer: _______________________________________________________________

10. Certificate Number(s) and Issue Dates (where applicable) (please attach copies of front and back):

   _______________________________________________________________________________

11. Where traded: ___________________________________________________________________

12. How did client acquire the shares: _________________________________________________

13. When did client acquire the shares: _________________________________________________

14. From whom or what entity did client acquire the shares: _________________________________

15. What consideration was given by client for acquisition of the shares: __________________________

16. Is the client now or has the client ever been an officer, director, control person, or person or entity who owns or controls 5% of the issued and outstanding shares of the issuer (for purposes of calculating 5%, the client’s ownership and/or interest in anything readily convertible into shares of the issuer must also be considered): __________________________

17. Were the shares issued the client under an effective registration statement? (If so, please provide information regarding the type of registration statement, date filed, and evidence of issuance in accordance with the registration statement):

   _______________________________________________________________________________

18. Does the certificate currently contain a restrictive legend: _______________________
19. For certificates not issued in accordance with an effective registration statement, or in accordance with an exemption or exception from registration, please provide all documents and information (including an opinion of counsel) that support removal of the restrictive legend. Please also provide your understanding as to why the certificates do not contain any restrictive legend and/or were issued in accordance with an exemption or exception from the registration requirements:

20. Is the issuer a shell issuer or development stage company, or has it been one within the preceding twelve (12) months:

21. Is the issuer fully reporting in accordance with the Securities Act of 1933 or the Securities Exchange Act of 1934 (which one):

22. Is the issuer current in its reporting obligations:

23. Does the client have any relationship with the issuer or its subsidiaries:

24. Has the customer made, or will the customer make, any payment to any person or entity in connection with the customer’s proposed sale of the securities:

__________________________
Signature of CCO or Supervisory Principal

__________________________
Date

__________________________
Printed Name of CCO or Supervisory Principal

__________________________
Signature of Client (as required per correspondent)

__________________________
Date

__________________________
Printed Name of Client

Page 2 of 2 (Policy Questionnaire)
<issuere Letter for Certificates Not Carrying a Legend>

“ISSUER LETTERHEAD”

<Date>

Principal of Broker Dealer
Name of Broker Dealer
Street Address
City, ST Zip code

Dear <Principals Name>:

We understand that <Name of Customer> has delivered <number of shares and issue> in the following denominations to <Name of Broker Dealer>, as negotiable and free trading shares:

<table>
<thead>
<tr>
<th>Certificate Number</th>
<th>Number of Shares</th>
<th>Total Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As a condition of accepting these shares for deposit to the account of <Customer> carried by your clearing firm, you have requested this letter which serves to confirm the authenticity of the certificates referenced above.

<Issuer> confirms that the above referenced shares are fully registered, unrestricted, without encumbrance, negotiable, free-trading, and are issued as fully paid and non-assessable shares. There is no action, proceeding or investigation pending or threatened which questions the validity of the issuance of the shares to <Customer> or any of the foregoing representations.

<Issuer> hereby acknowledges that for purposes of settling the contemplated sale transaction by <Customer> that we have no claims pending that would adversely affect the settlement of any sale transaction engaged in by <Customer>. We further acknowledge and agree that there is no other agreement or understanding between <Customer> and <Issuer> that would preclude <customer> from selling or otherwise disposing of shares represented above.

<Issuer> has notified its transfer agent to confirm with you that there are no “stop transfer” orders or other restrictions against the certificates referenced above.

Yours Truly,

Signature
Officer of the Issuer

Witnessed before me in the
City of ______________________________
In the State of __________________________
This __________________________ day of , 20____

___________________________
Notary/Principal of Correspondent
ISSUE LETTER FOR CERTIFICATES CARRYING A LEGEND

“ISSUE LETTERHEAD”

<Date>

Principal of Broker Dealer
Name of Broker Dealer
Street Address
City, ST Zip code

Dear <Principals Name>:

We understand that <Name of Customer> has delivered <number of shares and issue> in the following denominations to <Name of Broker Dealer>:

Certificate Number

Number of Shares

Total Number of Shares

As a condition of accepting these shares for deposit to the account of <Customer> carried by your clearing firm, you have requested this letter which serves to confirm the authenticity of the certificates referenced above.

<Issuer> confirms that the above referenced shares are without encumbrance, are issued as fully paid, non-assessable shares, and are now freely tradable. Any restrictive legend currently existing on said shares can now be lifted under Section 4 (1) and/or Rule 144 of the Securities Act of 1933. Further, there is no action, proceeding or investigation pending or threatened which questions the validity of the issuance of the shares to <Customer> or any of the forgoing representations.

<Issuer> hereby acknowledges that for purposes of settling the contemplated sale transaction by <Customer> that we have no claims pending that would adversely affect the settlement of any sale transaction engaged in by <Customer>. We further acknowledge and agree that there is no other agreement or understanding between <Customer> and <Issuer> that would preclude <customer> from selling or otherwise disposing of shares represented above.

Yours Truly,

Signature
Officer of the Issuer

Witnessed before me in the
City of __________________________
In the State of ______________________
This ___________________________ day of , 20___

___________________________
Notary /Principal of Correspondent
ISSUER LETTER FOR CONVERTIBLE SECURITIES

“ISSUER LETTERHEAD”

<Date>

Principal of Broker Dealer
Name of Broker Dealer
Street Address
City, ST Zip code

Dear <Principals Name>:

This letter shall confirm that <Name of Customer> has entered a <Name of Convertible/Exercisable Securities Agreement> dated <Date> for the principal sum of <Amount of Consideration> (the “Securities Agreement”).

As a condition of accepting common shares from the conversion/exercise of the Securities Agreement (the “Common Shares”) for deposit to the account of <Customer> carried by your clearing firm, you have requested this letter to verify the authenticity of the Common Shares.

Per the terms of the Securities Agreement, <Customer> has a right to convert or exercise into <Number of Shares> Common Shares as of today’s date, and up to <Number of Shares> Common Shares at future conversion/exercise dates under the conversion metrics available.

<Issuer> hereby confirms that the above referenced Common Shares have been and will continue to be issued as fully paid, non-assessable, without encumbrance. Any restrictive legend existing on the Common Shares at the time of issuance can be lifted under Section 4 (1) and/or Rule 144 of the Securities Act of 1933 as of <Date>. After such date, the Common Shares shall be freely tradable. Further, there is no action, proceeding or investigation pending or threatened which questions the validity of the issuance of the Common Shares to <Customer> or any of the foregoing representations.

<Issuer> hereby acknowledges that for purposes of settling the contemplated sale transaction by <Customer> that we have no claims pending that would adversely affect the settlement of any sale transaction engaged in by <Customer>. We further acknowledge and agree that there is no other agreement or understanding between <Customer> and <Issuer> that would preclude <Customer> from selling or otherwise disposing of the Common Shares represented above.

Yours Truly,

Signature
Officer of the Issuer

Witnessed before me in the
City of ____________________________
In the State of ____________________________
This ____________________________ day of __________, 20____

___________________________
Notary /Principal of Correspondent
REFUSAL ATTESTATION

FOR

ISSUER LETTER FOR CERTIFICATES CARRYING A LEGEND

<Date>

COR Clearing, LLC
Attn: Corporate Services
9300 Underwood Avenue, Suite 400
Omaha, NE 68114

Dear COR Clearing:

I am writing to notify you that <Correspondent Firm> has been unsuccessful in its efforts to obtain a letter from <Name of Issuer> confirming that the shares described below have been validly issued, can now have any restrictive legend removed, and can thereafter be traded without being subject to any further lock-up, holding period, or other restrictions.

Certificate Number(s): _____________________

Number of Shares: _____________________

Total Number of Shares: _____________________

Therefore, <Correspondent Firm> and <Shareholder Name> hereby agree to have any restrictive legend still remaining on the subject shares certificate(s) removed by the issuer’s transfer agent prior to initiating a sale of these shares.

I understand that my firm <Correspondent Firm> and <Name of Registered Rep.> will be penalized as described in COR Clearing’s Heightened Risk Securities Guidebook in the event that we attempt to sell the subject shares prior to receiving confirmation that any certificate legends have been removed.

Sincerely,

<Correspondent Firm>

Signature of Principal: ______________________________

Print Name of Principal: ______________________________
TRANSFER AGENT’S STATEMENT OF WARRANTY FOR CERTIFICATED SECURITIES

Transfer Agent: ________________________   Fax: ___________________________

To : <Issuer’s Transfer Agent >

Please confirm that there are no STOPS regarding the certificate specified below, a copy of which is attached hereto (see attached). Furthermore, kindly confirm that the certificate identified is validly issued as indicated on its face and that to your knowledge there are no adverse claims pertaining to this certificate.

Please sign and return this form together with the additional document(s) requested below to COR Clearing, LLC (COR), via facsimile or mail, at your earliest convenience. The fax number for COR is 402-384-6161. By executing your signature below, pursuant to U.C.C. Article 8, you as transfer agent, warrant to COR that:

(1) the certificate is genuine, validly issued and freely transferable;
(2) the transfer agent’s own participation in the issue of the security is within its capacity and within the scope of the authority received by the transfer agent from the issuer; and
(3) the transfer agent has reasonable grounds to believe that the certificated security is in the form and within the amount the issuer is authorized to issue.

Moreover U.C.C. Article 8 imposes on transfer agents strict liability for failure to satisfy certain affirmative obligations in registering the transfer of a certificate. Among other things, the transfer agent has an express statutory obligation to confirm that:

(1) the person seeking registration of the transfer is eligible to have the security registered in its name; (2) the endorsement is made by the appropriate person or his authorized agent; (3) reasonable assurance is given that the endorsement is genuine and authorized; (4) the transfer does not violate certain restrictions; and (5) the transfer is in fact rightful or to a protected purchaser.

Attn: COR – Certificate Transfer Dept
From: ____________________________________________
(Transfer Agent Name)

________________________________________________ Certificate

Description (Name of Security) (Cusip) (Number of Shares ) (Certificate Number)

________________________________________________ (Certificate Holder of Record)

This is a letter to notify you that there are no STOPS regarding the above specified certificate. Moreover, this certificate is validly issued as indicated on its face and as of this date, there are no adverse claims pertaining to this certificate. If at any subsequent time we, as the transfer agent, are made aware of any adverse claim with respect to this certificate we further warrant that we shall immediately notify COR within 24 hours in writing.

________________________________________________
(Representative of Transfer Agent) (Title)
________________________________________________ (Printed Name)

Notary Stamp or Medallion:
TRANSFER AGENT’S STATEMENT OF
WARRANTY FOR CERTIFICATED SECURITIES

REFUSAL LETTER

Transfer Agent: ___________________________ Fax: ___________________________

To: <Issuer’s Transfer Agent>

Please confirm that there are no STOPs regarding the certificate specified below, a copy of which is attached hereto (see attached). Furthermore, kindly confirm that the certificate identified is validly issued as indicated on its face and that to your knowledge there are no adverse claims pertaining to this certificate.

Please sign and return this form together with the additional document(s) requested below to COR Clearing, LLC (COR), via facsimile or mail, at your earliest convenience. The fax number for COR is 402-384-6161.

By executing your signature below, pursuant to U.C.C. Article 8, you as transfer agent, warrant to COR that:

1. the certificate is genuine, validly issued and freely transferable;
2. the transfer agent’s own participation in the issue of the security is within its capacity and within the scope of the authority received by the transfer agent from the issuer; and
3. the transfer agent has reasonable grounds to believe that the certificated security is in the form and within the amount the issuer is authorized to issue.

Moreover U.C.C. Article 8 imposes on transfer agents strict liability for failure to satisfy certain affirmative obligations in registering the transfer of a certificate.

Among other things, the transfer agent has an express statutory obligation to confirm that:
(1) the person seeking registration of the transfer is eligible to have the security registered in its name; (2) the endorsement is made by the appropriate person or his authorized agent; (3) reasonable assurance is given that the endorsement is genuine and authorized; (4) the transfer does not violate certain restrictions; and (5) the transfer is in fact rightful or to a protected purchaser.

Attn: COR – Certificate Transfer Dept

Date: ___________________________

From: ___________________________

(Transfer Agent Name)

Certificate Description (Name of Security) (Cusip) (Number of Shares ) (Certificate Number)

(Certificate Holder of Record)

This is a letter to notify you that there are no STOPs regarding the above specified certificate. Moreover, this certificate is validly issued as indicated on its face and as of this date, there are no adverse claims pertaining to this certificate. If at any subsequent time we, as the transfer agent, are made aware of any adverse claim with respect to this certificate we further warrant that we shall immediately notify COR within 24 hours in writing.

This confirms that (Correspondent Firm) attempted to obtain the above information from:

_________________________________________ Transfer agent (Full name and phone number)

☐ This agent has refused to sign and/or medallion the requested information.

_________________________________________ Correspondent Firm Principal

Signature and Date
SELLER’S REPRESENTATION LETTER – NON-AFFILIATE

Deposit of Free Trading Shares

To whom it may concern:

I, the undersigned, submit this form to you in order to present all facts necessary to request authorization to sell the shares in ____________ (the “Company”) as set forth below without being subject to trading restriction placed on affiliates.

<table>
<thead>
<tr>
<th>(ISSUER)</th>
<th>(COMMON, PREFERRED, ETC.)</th>
<th>(CUSIP)</th>
<th>(QUANTITY)</th>
</tr>
</thead>
</table>

1. The undersigned is not at present and has not been during the preceding three months, an officer, director or 10% shareholder of the Company or in any other way an “affiliate” or “control person” of the Company.

2. I fully paid all consideration for, was the beneficial owner of, and bore the full risk of ownership on these securities since the later of the date the securities were acquired from the Issuer or from an affiliate of the Issuer. The shares were acquired on: ___________

3. Below is a brief explanation of how these shares were acquired:

______________________________

4. Manner of payment:

______________________________

5. I know of no important development affecting the Company or its business or products which has not been made public, and I confirm that I have requested you to sell such shares for personal reasons and not because of any information which I may have with respect to the Company or its current or prospective operations.

The undersigned represents that the information furnished above is correct and complete to the best of his knowledge, information and belief. In the event that any of the information furnished is found to be no longer accurate or complete, the undersigned will promptly notify COR Clearing LLC in writing.

Account Holder Signature(s): ______________________

Printed Account Name(s): ______________________

Account Number: ______________________

Date: ______________________
SELLER’S REPRESENTATION LETTER – NON-AFFILIATE

Deposit of Restricted Shares

To whom it may concern:

I, the undersigned, submit this form to you in order to present all facts necessary, pursuant to SEC rule 144 of the Securities ACT on 1933 by a non-affiliate of the Issuer, to request and authorize the transfer agent for (the “Company”) to remove the restrictive legend and any stop transfer instructions from the following issue:

<table>
<thead>
<tr>
<th>(ISSUER)</th>
<th>(COMMON, PREFERRED, ETC.)</th>
<th>(CUSIP)</th>
<th>(QUANTITY)</th>
</tr>
</thead>
</table>

1. The undersigned is not at present and has not been during the preceding three months, an officer, director or 10% shareholder of the Company or in any other way an “affiliate” of the Company within the meaning of Rule 144(a)(1).

2. My holding period: (mark one box)
   †
   - Beneficial owner for at least 6 months but less than 1 year*
   - Beneficial owner for one year or more

   The shares are “restricted securities,” as that term is used in Rule 144(a)(3), and I fully paid all consideration for, was the beneficial owner of, and bore the full risk of ownership on these securities since the later of the date the securities were acquired from the Issuer or from an affiliate of the Issuer. The shares were acquired on: ________________

   *If the holding period is for at least 6 months but less than 1 year, the company:

   (a) has been subject to the 1934 Exchange Act for at least 90 days
   (b) has complied with the current public information requirements set forth in Rule 144 (c), and
   (c) has filed all of its required 1934 Act reports

3. Below is a brief explanation of how these shares were acquired:

   __________________________________________________________________________

4. Manner of payment: __________________________________________________________

5. I know of no important development affecting the Company or its business or products which has not been made public, and I confirm that I have requested you to sell such shares for personal reasons and not because of any information which I may have with respect to the Company or its current or prospective operations.

The undersigned represents that the information furnished above is correct and complete to the best of his knowledge, information and belief. In the event that any of the information furnished is found to be no longer accurate or complete, the undersigned will promptly notify COR Clearing LLC in writing.

| Account Holder Signature(s): _______________________________ | Account Number: ___________________ |
| Printed Account Name(s): _________________________________ | Date: ______________________________ |

COR Clearing, LLC – Heightened Risk Securities Correspondent Guidebook / February 12, 2014
SELLER’S REPRESENTATION LETTER – NON-AFFILIATE

Deposit of Free Trading Shares

ACQUIRED VIA: SHELF OFFERING, REGISTERED DIRECT, & OR SECONDARY OFFERINGS

To whom it may concern:

I, the undersigned, submit this form to you in order to present all facts necessary to request authorization to sell the shares in ____________ (the “Company”) as set forth below without being subject to trading restriction placed on affiliates.

<table>
<thead>
<tr>
<th>(ISSUER)</th>
<th>(COMMON, PREFERRED, ETC.)</th>
<th>(CUSIP)</th>
<th>(QUANTITY)</th>
</tr>
</thead>
</table>

1. The undersigned is not at present and has not been during the preceding three months, an officer, director or 10% shareholder of the Company or in any other way an “affiliate” or “control person” of the Company.

2. The undersigned has entered into an irrevocable contract on (trade date__________) which requires payment by the settlement date ________________. Evidence of consideration will be provided to COR on or prior to the settlement date. The undersigned is the beneficial owner of, and bore the full risk of ownership on these securities since the date the securities were acquired from the Issuer or from an affiliate of the Issuer. The shares were acquired on: ________________.

3. Below is a brief explanation of how these shares were acquired:

___________________________________________________________________________

4. Manner of payment:

_____________________________________________________________________________

5. The understand knows of no important development affecting the Company or its business or products which has not been made public, and will confirm that it has requested you to sell such shares for personal reasons and not because of any information which I may have with respect to the Company or its current or prospective operations.

The undersigned represents that the information furnished above is correct and complete to the best of its knowledge, information and belief. In the event that any of the information furnished is found to be no longer accurate or complete, at the time the undersigned seeks to sell the securities, the undersigned will promptly notify COR Clearing LLC in writing prior to such sale.

Account Holder Signature(s): ______________________

Account Number: ________________

Printed Account Name(s): ______________________

Date: ______________________
PHYSICAL DEPOSIT ATTESTATION
FOR NMS STOCK

To whom it may concern:

I, the undersigned, submit this form to you in order to request authorization to deposit and sell the shares set forth below (the “Shares”).

Description of the Shares:

<table>
<thead>
<tr>
<th>(ISSUER)</th>
<th>(SHARE TYPE: COMMON, PREFERRED, ETC.)</th>
<th>(CUSIP)</th>
<th>(QUANTITY)</th>
</tr>
</thead>
</table>

Please check all that apply:
- ☐ The Shares were originally issued with a restrictive legend as of ____________________ (date), and the legend has not been removed.
- ☐ The Shares were originally issued as restrictive legend as of ____________________ (date), and the restriction has been removed.
- ☐ The Shares were purchased directly from the issuer.
- ☐ The Shares were purchased from a third party as of ____________(date).
- ☐ The Shares have been registered in a registration statement that became effective ____________ (date).
  If you checked the box above, please describe the type of registration statement:
  - ☐ Registered Direct Offering
  - ☐ Resale Registration Statement
  - ☐ Follow-on Registration Statement
  - ☐ S-8 Registration Statement
  - ☐ Other: ___________________________

- ☐ The Shares have been derived from another security.
  If you checked the box above, please describe how the Shares were derived:
  - ☐ Promissory Note Conversion
  - ☐ Preferred Share Conversion
  - ☐ Warrant Exercise
  - ☐ Corporate Action (Stock Dividend or Split)
  - ☐ Other: ___________________________

The undersigned represents that the information furnished above is correct and complete to the best of his or her knowledge. In the event that any of the information furnished is found to be no longer accurate or complete, at the time the undersigned seeks to sell the securities, the undersigned will promptly notify COR Clearing LLC in writing prior to such sale.

Account Holder Signature(s): ______________________  Account Number: _________________
Printed Account Name(s): ______________________  Date: ______________________
ELECTRONIC DEPOSIT ATTESTATION
FOR NMS STOCK

To whom it may concern:

I, the undersigned, submit this form to you in order to request authorization to deposit and sell the shares set forth below (the “Shares”).

Description of the Shares:

| ISSUER | SHARE TYPE: COMMON, PREFERRED, ETC. | CUSIP | QUANTITY |

Please check all that apply:

☐ The Shares were originally issued as restricted as of ________________ (date), and the restriction has not been removed.
☐ The Shares were originally issued as restricted as of ________________ (date), and the restriction has been removed.
☐ The Shares were purchased directly from the issuer.
☐ The Shares were purchased from a third party as of ________________ (date).
☐ The Shares have been registered in a registration statement that became effective ________________ (date).

If you checked the box above, please describe the type of registration statement:

☐ Registered Direct Offering
☐ Resale Registration Statement
☐ Follow-on Registration Statement
☐ S-8 Registration Statement
☐ Other: ___________________________

☐ The Shares have been derived from another security.

If you checked the box above, please describe how the Shares were derived:

☐ Promissory Note Conversion
☐ Preferred Share Conversion
☐ Warrant Exercise
☐ Corporate Action (Stock Dividend or Split)
☐ Other: ___________________________

The undersigned represents that the information furnished above is correct and complete to the best of his or her knowledge. In the event that any of the information furnished is found to be no longer accurate or complete, at the time the undersigned seeks to sell the securities, the undersigned will promptly notify COR Clearing LLC in writing prior to such sale.

Account Holder Signature(s): ___________________________ Account Number: __________________

Printed Account Name(s): ___________________________ Date: ___________________________
VIII. Non-NMS Stocks Execution and Illiquid Charge Policy

Trading Non-NMS Stocks involves significant risks, increased regulatory requirements, and additional fees. As a result of the increased risks associated with Non-NMS Stocks, the National Securities Clearing Corporation (NSCC), a subsidiary of DTC, assesses an “illiquid charge” to the clearing firm (i.e. COR Clearing, LLC) when the firm’s aggregate position in a security surpasses certain thresholds. The illiquid charge is a deposit that COR is required to post and is determined by NSCC based on several different factors. This charge is assessed even if the customer owns the shares and holds them in the account.

Criteria for Determining the Assessment of Illiquid Charges

NSCC uses the following criteria to determine whether an illiquid charge could be assessed:

- Stock is traded OTC Bulletin Board or Pink Sheet
- COR’s aggregate undelivered sells exceed 25% of the average daily volume over the last 20 days
  - This means that if three different Introducing Broker-Dealers (IBD) each sell 10% of the last 20 day volume over three days, then COR’s aggregate undelivered sells will be 30%, and an illiquid charge could be assessed.
- COR’s aggregate yet to be received buys exceed 10 million shares
  - This means that if four different IBDs each buy 3 million shares, then COR’s aggregate yet to be received buys will be 12 million shares, and an illiquid charge could be assessed.

When an illiquid charge is assessed, the following factors are used to determine the size of the charge:

- The price of the stock
  - When the price of the stock is below $0.01, the minimum per share charge will be $0.01.
- The size of COR’s aggregate undelivered / yet to be received position (in shares)

When NSCC calculates a charge, they typically multiply the market value of the trade by some multiple which is determined based on the price of the stock and COR’s position relative to the average daily volume.

For example, security ABC has a price of $0.0001 and an average daily volume of 1,000,000 shares. If COR has undelivered sells of 15,000,000 shares, then NSCC
will likely assess an illiquid charge of $150,000. This is created by multiplying the undelivered sells by the minimum per share charge of $0.01.

**COR’s Policy for Dealing with the Transactions of Non-NMS Stocks**

COR has established policies and procedures related to the trading of these securities in order to best manage the risks and costs of Non-NMS Stocks. The most significant and frequent risk comes from the sale of Non-NMS Stocks. The procedure for selling Non-NMS Stocks, which have not been purchased through COR is as follows (Accounts with positions purchased through COR begin at step 2):

1) Once the Low-Priced Stock Review (LPSR) is completed by Stock Receipts, an email will be sent to the IBD stating something similar to the following:

   **The low priced review of 8,500,000 shares of ABC has been completed.**

   Any future sales of this low-priced security must be PRE-APPROVED by COR’s Risk department before execution in order to decrease the risk of substantial NSCC Illiquid Charges. You can submit the request for approval by emailing risk@corclearing.com.

2) The next step will be to email COR’s Risk Department at risk@corclearing.com with the symbol, amount of shares you want to sell, and the account number from which the shares will be sold. Risk will then proceed to determine what capacity COR has for selling the security based on the firm’s current undelivered position.

3) Risk will then reply to the email with the amount of shares that can be sold “regular way.” Regular way is used by Risk to mean the trade is being done through CNS or not ex-clearing. Regular way in this instance does not mean “regular way settlement” and that the shares will necessarily be delivered in T+3. Since COR’s positions change daily, the approvals are effective for one day only unless otherwise instructed by Risk.

4) Only after receiving written approval from Risk may the IBD then proceed to sell the approved amount of shares through CNS. If the IBD wishes to sell more than the approved amount of shares, then the IBD has the option of selling ex-clearing through VFIN. The process for selling ex-clearing will be explained in the section titled “Sale of Non-NMS Stocks Ex-Clearing.”

Purchases of Non-NMS Stocks go through the same process as is described above beginning with step 2. However, COR does not provide for the purchase of Non-NMS Stocks ex-clearing.

**Transactions in Institutional (DVP/RVP) Accounts**

All DVP transactions in Non-NMS Stocks, both buys and sells, will be included in COR’s aggregate undelivered sells volume. This means that both buys and sells in these
exceptions to the Non-NMS Stocks Sale Procedures*

The following transactions do not need to be approved by the Risk Department:

- **Undelivered sells of 30,000 shares or less of a Non-NMS Stock per IBD.** This exception means that an IBD may sell and have not delivered up to 30,000 shares without getting approval. This can be done through one sale or multiple sales, across one or multiple accounts, and one or multiple days.**

- **Yet to be received buys of 7.5 million shares or less of a Non-NMS Stock per IBD.** This exception means that an IBD may buy and have not received up to 7.5 million shares without getting approval. This can be done through one purchase or multiple purchases, across one or multiple accounts, and one or multiple days.**

*Note that these exceptions have no bearing on whether an LPSR needs to be done by Stock Receipts.

**Purchases and sales of Non-NMS Stocks in institutional (DVP/RVP) accounts are always treated as sales. These accounts can never satisfy the exception provided for purchases explained above.

Sale of Non-NMS Stocks Ex-Clearing

COR has arranged with VFIN a process that facilitates the sale of Non-NMS Stocks which COR does not have the ability to sell regular way. By selling ex-clearing COR is able to avoid the illiquid charges which allows for much more volume than if the transaction was executed through CNS. The process for selling shares ex-clearing is as follows:

In Thomson the trade will be entered as one would normally do except in the “Time In Force” field choose “D – Day Order,” in the “Not Held” box choose “X – Not Held,” and in the “Exchange” field select “VFIN – V Finance.” [SEE SCREEN SHOT ON FOLLOWING PAGE.]

Note:

- Remember, ex-clearing is for SELLS only. COR does not execute buys ex-clearing.
- VFIN treats every order that is sent from one of COR’s IBDs as ex-clearing. If a trade is not meant to be done ex-clearing, then do not route it to VFIN.
- If you get a “REST Restriction,” the account is restricted from selling that security. Contact Client Services to have them remove that restriction. Their phone number is 866 – 774 – 0218.

If a firm attempts to trade ex-clearing away from COR and an illiquid charge is created, then COR will consider this to be a violation of COR’s policy. The account and IBD will be subject to the penalties addressed in the section below titled “Consequences for Violating this Policy.”
Market Maker Domination Charges

Market maker domination charges are assessed to COR by the NSCC if an IBD takes a sizable net position in a security relative to the overall CNS volume (40% or greater of the CNS volume). A market maker domination charge can also be assessed if a customer account makes a sizeable trade (buy or sale) of a security relative to the rest of the market. This occurs because NSCC sees it coming from the IBD and does not distinguish between market making activity and customer activity.

Impact of NSCC Charges to IBDs and Accountholders

When COR is assessed an NSCC charge, COR passes a charge through to the account(s) which created the charge. The pass-through charge applied to each account is a percentage of the charge for which the account is responsible. COR’s standard charge is the broker call rate plus COR’s margin rate (i.e. currently, 6%).

For example, if COR received an NSCC charge of $100,000, then COR would multiply $100,000 by 6% for a product of $6,000. The $6,000 is then divided by
365 to get a daily charge of $16.44. The resulting $16.44 daily charge will be passed through to the account holder.

If multiple accounts created the charge, then the charge passed through is proportional to their share of COR’s unsettled share position. Each day NSCC recalculates the charges which COR must meet. The accounts will continue to be charged until COR is no longer being charged or until delivery has been made of the accounts’ shares.

Consequences for Violating this Policy

The Non-NMS Stock business involves important risks to the clearing firm that COR must reserve the ability to manage in its discretion. COR takes violations of its policy very seriously. An example of a violation of this policy would be selling without first getting approval from the Risk Department or selling in amounts that exceed those approved by Risk.

Consequences for the Account

ANY VIOLATION OF COR’S HEIGHTENED RISK SECURITIES POLICIES MAY RESULT, IN COR’S SOLE AND ABSOLUTE DISCRETION, AND WITHOUT LIMITATION, IN BUY-INS AND/OR RESTRICTIONS ON OR CLOSURE OF THE ACCOUNT.

In addition to any such remedy and without limitation, COR will impose a financial penalty for a violation in the form of a pass-through charge of no less than 10% above the current standard rate (16%, assuming a standard rate of 6%) applied to the respective accounts. More serious or repeated offenses could result in the restriction or closure of the account.

Consequences for the IBD

ANY VIOLATION OF COR’S HEIGHTENED RISK SECURITIES POLICIES MAY RESULT, IN COR’S SOLE AND ABSOLUTE DISCRETION, AND WITHOUT LIMITATION, IN BUY-INS, RESTRICTIONS ON SERVICE, SUSPENSION OR TERMINATION OF CLEARING SERVICES AND/OR THE CLEARING AGREEMENT FOR THE IBD, ALL AS SET FORTH IN THE CLEARING AGREEMENT.

While any violation may result in the imposition in the remedies described above, COR is more likely to impose them in the case of more serious or repeated offenses.

In the case of any violation, however, in addition to any of the above remedies and without limitation, IBDs will be financially penalized each time they violate COR’s policy according to the following schedule:

1st Offense: Correspondent firm will be penalized in an amount equal to the greater of $500 or the commission earned on the subject trade (ie. no commission will be paid to the correspondent)
2\textsuperscript{nd} Offense: Correspondent firm will be penalized in an amount equal to the greater of $1,000 or 2X the commission charged on the subject trade

3\textsuperscript{rd} Offense: Correspondent firm will be penalized in an amount equal to the greater of $2,500 or 3X the commission charged on the subject trade

Each Additional Offense: Correspondent firm will be penalized in an amount equal to the greater of $1,000 multiplied by the number of offenses to date or the commission charged on the subject trade

Shareholders that sell without approval from COR’s Risk Desk will be charged a penalty interest rate on funds posted with NSCC during the settlement period.
IX. Requests for Eligibility Through DTCC

The following documentation should be submitted to COR’s Stock Receipt Department in conjunction with any requests for “Older Issue Eligibility” at DTCC:

- Completed older eligibility application form
- Copy of share certificate (front and back), without legend
- Transfer agent attestation form
- Most current registration statement (if available)
- A copy of the issuer’s 15c211 application and approval (if available)

COR will carefully review the request along with:

- The operating history of the applicant via relevant SEC filings
- Reporting status of the issue
- Officer and Director history
- Trading history of the issuer
- The basis for the request

COR’s review will be conducted by a Senior Manager. Any questions, concerns or issues will be discussed directly with the correspondent. If the request is rejected, COR will provide the correspondent the reason(s) for the rejection.

All correspondent requests to process securities for “Older Issue Eligibility” will result in a charge to the correspondent in the amount of $10,000.00 per review request, along with all out-of-pocket costs and expenses incurred by COR.
X. FINRA Regulatory Notice 09-05
Unregistered Resales of Restricted Securities

FINRA Reminds Firms of Their Obligations to Determine Whether Securities are Eligible for Public Sale

Executive Summary

FINRA reminds firms of their responsibilities to ensure that they comply with the federal securities laws and FINRA rules when participating in unregistered resales of restricted securities. These responsibilities are particularly important in situations where the surrounding circumstances place the firm on notice that it may be participating in illegal, unregistered resales of restricted securities, such as when a customer physically deposits certificates or transfers in large blocks of securities and the firm does not know the source of the securities.

Recent FINRA investigations have revealed instances in which firms failed to recognize certain “red flags” that signaled the possibility of an illegal, unregistered distribution. This Notice identifies situations in which firms should conduct a searching inquiry to comply with their regulatory obligations under the federal securities laws and FINRA rules. FINRA also has reviewed procedures provided by a number of large, medium and small firms that are designed to address compliance. This Notice describes and discusses those procedures.

Questions concerning this Notice should be directed to:

- Gary L. Goldsholle, Vice President and Associate General Counsel, Office of the General Counsel, at (202) 728-8104;
- Joseph E. Price, Vice President, Corporate Financing, at (240) 386-4623; or
- Lisa Jones Toms, Counsel, Corporate Financing, at (240) 386-4661.
Background & Discussion

Firms play a critical role in helping prevent illegal, unregistered resales of restricted securities into the public markets. It is a violation of the federal securities laws for a firm to offer or sell a security without an effective registration statement or an applicable exemption from the Securities Act of 1933 (Securities Act). In addition, such sales may violate NASD Rules 2710 (Corporate Financing Rule – Underwriting Terms and Arrangements), 2720 (Distribution of Securities and Affiliates – Conflicts of Interest) and 2810 (Direct Participation Programs).

All firms must have procedures reasonably designed to avoid becoming participants in the potential unregistered distribution of securities. The nature of those procedures and the required level of firm inquiry concerning the customer and the source of the securities will depend on the particular circumstances. In addition, firms may not rely solely on others, such as clearing firms, transfer agents, or issuers' counsel, to fulfill these obligations. Firms’ specific obligations are discussed in more detail below.

The Securities Act prohibits the sale of securities unless the sale is made pursuant to an effective registration statement, or falls within an available exemption from registration. Before selling securities in reliance on an exemption, a firm must take reasonable steps to ensure that the transaction qualifies for the exemption, regardless of whether the sale is for its own accounts or on behalf of customers. This includes taking whatever steps necessary to ensure that the sale does not involve an issuer, a person in a control relationship with an issuer, or an underwriter with a view to offer or sell the securities in connection with an unregistered distribution.

Section 4(1) of the Securities Act provides an exemption for the routine trading of alreadyissued securities. It does not, however, exempt sales by an issuer, or a control person of the issuer, or an underwriter or dealer. Section 4(2) of the Securities Act exempts sales made by an issuer not involving a public offering. Whether a sale is one that involves a public offering, however, is a question of fact which requires an inquiry regarding the surrounding circumstances, including such factors as the relationship between the seller and the issuer, and the nature, scope, size, type and manner of the offering. Section 4(4) of the Securities Act provides an exemption for unsolicited brokers’ transactions. However, this exemption is available only if a broker is not aware, after a reasonable inquiry, of circumstances indicating that the selling customer is participating in a distribution of securities.
Recently, FINRA has investigated and brought several enforcement actions concerning unregistered distributions. A common theme in these cases was that firms resold large amounts of low-priced equity securities in over-the-counter transactions. Among the allegations in these cases are that the inquiries necessary to uncover the facts of the unregistered distribution were not done or were inadequate, and the firms lacked proper supervisory controls to ensure that their written procedures were being followed. More specifically, in some instances, firms failed to take steps to determine when or how their customers had received the share certificates at issue, whether their customers were control persons of the issuers, or what percentage of the outstanding shares of these companies their customers owned. In some instances, physical certificates for shares were repeatedly deposited into accounts and then sold by firms that participated in unregistered distributions.

**Red Flags and the Duty to Make an Inquiry**

Firms typically serve as the channel of distribution through which issuers, affiliates and promoters can access the public securities markets. Firms that do not adequately supervise or manage their role in such distributions run the risk of participating in an illegal, unregistered distribution. As recent investigations have shown, problems can arise when firms fail to recognize or take appropriate steps when confronted with “red flags” that signal the possibility of an illegal, unregistered distribution.

The following are examples of red flags (these are by no means comprehensive and should not be considered a “roadmap” for compliance purposes):

- A customer opens a new account and delivers physical certificates representing a large block of thinly traded or low-priced securities;
- A customer has a pattern of depositing physical share certificates, immediately selling the shares and then wiring out the proceeds of the resale;
- A customer deposits share certificates that are recently issued or represent a large percentage of the float for the security;
- Share certificates reference a company or customer name that has been changed or that does not match the name on the account;
- The lack of a restrictive legend on deposited shares seems inconsistent with the date the customer acquired the securities or the nature of the transaction in which the securities were acquired;
- There is a sudden spike in investor demand for, coupled with a rising price in, a thinly traded or low-priced security;
- The company was a shell company when it issued the shares;
- A customer with limited or no other assets under management at the firm receives an electronic transfer or journal transactions of large amounts of low-priced, unlisted securities;
- The issuer has been through several recent name changes, business combinations or recapitalizations, or the company’s officers are also officers of numerous similar companies;
- The issuer’s SEC filings are not current, are incomplete, or nonexistent.

As noted above, these examples are merely illustrative. There are many other situations that may signal that a firm should take a closer look at the circumstances of a proposed resale transaction.

Regarding the duty of firms to determine whether restricted securities are eligible for public sale, the SEC has said that:

[A] dealer who offers to sell, or is asked to sell a substantial amount of securities must take whatever steps are necessary to be sure that this is a transaction not involving an issuer, person in a control relationship with an issuer or an underwriter. For this purpose, it is not sufficient for him merely to accept “selfserving statements of his sellers and their counsel without reasonably exploring the possibility of contrary facts.” (footnote omitted)

The amount of inquiry called for necessarily varies with the circumstances of particular cases. A dealer who is offered a modest amount of a widely traded security by a responsible customer, whose lack of relationship to the issuer is well known to him, may ordinarily proceed with considerable confidence. On the other hand, when a dealer is offered a substantial block of a little-known security, either by persons who appear reluctant to disclose exactly where the securities came from, or where the surrounding circumstances raise a question as to whether or not the ostensible sellers may be merely intermediaries for controlling persons or statutory underwriters, then searching inquiry is called for. The problem becomes particularly acute where substantial amounts of a previously little known security appear in the trading markets within a fairly short period of time and without the benefit of registration under the Securities Act of 1933. In such situations, it must be assumed that these securities emanate from the issuer or from persons controlling the issuer, unless some other source is known and the fact that the certificates may be registered in the names of various individuals could merely indicate that those responsible for the distribution are attempting to cover their tracks.
Inquiry Obligations under Securities Act Rule 144

A firm that distributes securities for its own account or on behalf of a customer may be considered a statutory underwriter. Securities Act Rule 144 establishes a non-exclusive “safe harbor” from being deemed an underwriter if the securities are sold in compliance with its requirements. Unregistered securities that are not freely transferable are considered “restricted securities” when they are acquired in a private transaction or are acquired by a control person of the issuer.  

The SEC recently revised Rule 144 and made substantial changes to the requirements governing resales of restricted securities. The amendments, which became effective on February 15, 2008, continue to impose a one-year holding period prior to any public resale on restricted securities of companies that are not subject to the Exchange Act reporting requirements. The amendments eliminated the sales volume and manner of sale limitations on resales made by nonaffiliates. Revised Rule 144 also includes more stringent restrictions on the resale of shares issued by shell companies. Accordingly, firms should review whether the company that issued the subject shares was a shell company when the shares were issued.

Before reselling restricted securities, firms must take reasonable steps to ensure that the transaction complies with Rule 144 or another available exemption. The factors set forth in the Notes to Rule 144(g) serve as a pragmatic guideline in determining what questions firms should ask their customers before engaging in an unregistered resale of securities:

- How long has the customer held the security?
- How did the customer acquire the securities?
- Does the customer intend to sell additional shares of the same class of securities through other means?
- Has the customer solicited or made any arrangement for the solicitation of buy orders in connection with the proposed resale of unregistered securities?
- Has the customer made any payment to any other person in connection with the proposed resale of the securities? and
- How many shares or other units of the class are outstanding, and what is the relevant trading volume?

Firms should also try to physically inspect share certificates, if possible, as an opportunity to identify red flags and deter risks from forgery and fraudulent certificates.
Supervisory Procedures and Controls for Unregistered Resales of Securities

NASD Rule 3010 (Supervision) requires a firm to establish a supervisory system and corresponding written procedures to supervise its businesses and associated persons’ activities. Accordingly, firms that accept delivery of large quantities of low-priced OTC securities, in either certificate form or by electronic transfer, and effect sales in these securities, should have written procedures and controls in place to prevent participation in an illegal, unregistered distribution of securities.

To help firms evaluate their procedures for supervising these resale transactions, FINRA has reviewed the procedures of a number of large, medium and small firms. The procedures noted below are not intended to be a comprehensive roadmap for compliance and supervision with respect to unregistered resales of restricted securities, but rather highlight measures that some firms are using to ensure better compliance with their obligations. While a particular practice may work well for one firm, the same approach may not be effective or economically feasible for another. Firms must adopt procedures and controls that are effective given their size, structure and operations. The procedures we surveyed varied depending on the firms’ business models; nevertheless, the most comprehensive ones tended to include a mandatory, standardized process that requires formal approval of the proposed resale transaction and thorough accompanying documentation that:

* Clearly communicates each step in the review, approval and post-approval process through the various stages of background inquiry, information gathering, required documentation, review, final approval, execution and recordkeeping of the transaction;
* Assigns clear “ownership” of each step of the transaction review, approval and execution process to the responsible representative, principal, legal or compliance specialist, business unit or department; and
* Is easily accessible to the personnel involved in the process, often through internal Web-based applications that are clear, instructive and encourage process standardization.

Standardized procedures should be accompanied by supervisory controls to ensure that a reasonable and meaningful investigation of the surrounding circumstances is conducted and that the information obtained is evaluated to identify whether a proposed resale transaction could amount to an illegal, unregistered distribution of a restricted security on behalf of an underwriter, an issuer, or a control person of the issuer. As a general matter, the procedures and controls should apply to not only proposed resales, but also the transfer of securities from one account to another by journal or book entry.
Among the compliance procedures FINRA reviewed are: **A. Initial Assessment and Review**

A number of firms had procedures that required a comprehensive initial review of the proposed resale, which includes gathering information concerning how, when, and under what circumstances a customer obtained the securities; whether the securities are registered pursuant to an effective Securities Act registration statement; how much of the stock is owned by or under the control of the customer; whether the stock was paid for by the customer; what relationship, if any, the customer has with the issuer or its control persons; and how much stock has been sold by the customer. Some procedures also contained brief descriptions of how holders of unregistered securities may acquire them, such as via private placements, corporate reorganizations, business combinations and stock options plans, and explained that the requirements for resales of such securities can vary depending on the nature of the transaction and the status of the seller, *i.e.*, whether the seller is considered an affiliate of the issuer.

Some firms prohibited their representatives from accepting large blocks of securities in certificate form or required supervisory approval before a transfer of restricted securities would be accepted.

Many firms required the results of the initial review to be documented and held the persons performing the review accountable for completion of the factgathering and documentation process. As part of this process, firm procedures required the use of questionnaires completed by the selling customer regarding the proposed resale transaction, form letters completed by the customer and registered representative, and other standardized documentation depending on the transaction. Some firms deferred the documentation requirements to the person or department responsible for approval. Most firms required the completed documentation to be reviewed for any unusual circumstances and for completeness before submitting it for formal approval of the transaction. This assessment may also alert the firm to unusual or suspicious circumstances that may trigger other compliance procedures (such as AntiMoney Laundering (AML) reporting) or additional approvals given the size or nature of the transaction.
B. Formal Review and Approval

Most of the procedures we reviewed required formal approval by a person, unit or department that is independent of the initial assessment and review of the proposed resale transaction. The person or department responsible for such approval was required to document the steps taken and was accountable for the final approval. For many firms, the final approval process is more than a verification of the adequacy of the documentation. It included an investigation of the customer’s and issuer’s background; a formal process to confirm the seller’s affiliation status and the conditions upon which the shares can be resold; verification that the issuer is current in its filings and the issuer’s information is publicly available; and a thorough review of the opinion of counsel, restricted stock legend, offering materials or prospectus, and other documents for reasonableness of the information and representations. It also took into account any previous sales by the customer through any accounts at the firm. Approval from a designated principal or legal and compliance specialist generally is required in these instances before executing or submitting the trade for execution. The approval document also specifies whether there are any conditions to the resale, such as volume, manner of sale or other applicable requirements.

C. Recordkeeping Obligations and PostApproval Review

Because of the manner of sale and other requirements that apply to unregistered resales of restricted securities by affiliates, some firms’ procedures included steps to monitor executions of approved transactions to ensure they comply with applicable volume or manner of sale requirements. Other firms have a process in place, postapproval of the resale transaction, to examine repeated resales by the same account or accounts under common control and to review and monitor aggregated resales in the same securities.

Some procedures we reviewed did not assign specific recordkeeping obligations. Other procedures designated a registered representative at the firm as the person responsible for retaining all documents related to the resale as opposed to having another entity such as the firm’s legal or compliance group or securities transfer unit designated as primarily responsible for document retention or, at least, to receive and retain copies of the documentation related to the resale.
Other Considerations

A. Reliance on Third Parties

In considering their obligations, firms should be aware that there are limitations on their ability to discharge those obligations by relying on others. FINRA, the SEC and the courts have repeatedly held that firms cannot rely on outside counsel, clearing firms, transfer agents, issuers, or issuer’s counsel to discharge their obligations to undertake an inquiry. Moreover, the fact that securities have been issued by a transfer agent without a restrictive legend, or have been put into trading status by a clearing firm, does not mean that those securities can be resold immediately and without limitation under the Securities Act.

B. AML Compliance

A firm must also ensure that its AML compliance program adequately addresses red flags that may be associated with unregistered resales conducted through the firm. In recent investigations, FINRA has found that firms that participated in unregistered resales of restricted securities also may have ignored a number of red flags that indicate not only that the resale was part of an unregistered distribution, but also that action may have been required under AML reporting requirements. Failure to conduct appropriate inquiry and respond to red flags may have consequences under both the federal securities laws and AML requirements.

Conclusion

Firms must have written procedures that are reasonably designed to avoid becoming participants in the illegal, unregistered resale of restricted securities into the public markets. As noted above, these procedures and the required level of firm inquiry depend on the facts and circumstances of the proposed resale. FINRA urges firms to pay careful attention to these obligations and the implementation of these procedures.
Endnotes

1 This Notice refers to brokerdealers and their associated persons collectively as “firms” unless otherwise specified.

2 NASD Rule 2710 is being re-designated as FINRA Rule 5110. See SRFINRA-2008039.

3 See, e.g., FINRA’s Corporate Financing Rules (NASD Rules 2710, 2720 and 2810), which apply to public offerings, and NASD Rule 2110, which requires firms to act under just and equitable principles of trade. Regulation M under the Exchange Act and other FINRA and SEC rules may also apply to an unregistered public distribution in addition to civil liabilities under the Securities Act.

4 The term “underwriter” is broadly defined in the Securities Act to include any person or entity that purchases securities from an issuer with a view to distribute, or offers or sells for an issuer in connection with a distribution, and any person or entity participating, directly or indirectly, in a distribution of securities. The term “issuer” includes any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control with the issuer. See Sec. 2(a)(11), Securities Act of 1933. Whether a customer is acting as an underwriter, is a control person, or is acting on behalf of an underwriter or control person, depends on the particular facts and circumstances of the transaction.


7 See Preliminary Note to Securities Act Rule 144. 17 CFR 230.144. The term “restricted securities” is defined in Rule 144(a)(3), and includes securities acquired directly or indirectly from the issuer or an affiliate of the issuer in a transaction or chain of transactions not involving a public offering.


9 Securities Act Rule 144(g). 17 CFR 230.144(g).
Recent investigations have uncovered fact patterns in which firms inappropriately relied on stock certificates issued without restrictive legends or certificates accompanied by false attorney opinions, or assumed that their clearing agent had the responsibility to determine if shares could be sold without restriction. FINRA has noted in previous guidance that firms are still responsible for the discharge of their obligations, even if they rely on third parties to perform certain activities and functions related to their business operations and regulatory responsibilities. Additionally, FINRA guidance makes clear that firms may not contract supervisory and compliance activities away from their direct control. See Notice to Members 0548 (Members’ Responsibilities When Outsourcing Activities to ThirdParty Service Providers).

See NASD Rule 3011 (AntiMoney Laundering Compliance Program) and Notice to Members 0221 (Guidance to Member Firms Concerning AntiMoney Laundering Compliance Programs Required by Federal Law).
