ACKNOWLEDGMENT OF ASSOCIATED PERSONS

I acknowledge that I have received this Manual and have read, will comply with, and understood its contents to the level of being able to answer questions about it from supervisors and regulatory auditors and to put its principles into practice. I understand that the Manual is continually updated and agree to take responsibility for obtaining, reviewing, and understanding any updates or supplements published by Fortune Financial Services, Inc.

Included in this Manual are special Firm Policies on the following subjects:

- Supervisory Systems
- Best Interest Recommendations
- Outside Business Activities and Private Securities Transactions ("Selling Away")
- Sales Practices
- Communications with The Public
- Improper Conduct
- Department of Labor Rule PTE2020

CRD No. 42150
3582 Brodhead Rd., Ste. 202
Monaca, PA 15061

Written Supervisory Procedures Manual

These written supervisory procedures were approved by William Pintaric, Jr., CCO as of September 1, 2021. These procedures are effective from the date approved until the date of their authorized revision, update, or replacement (see below).

Authorized Approval Bill Pintaric

Date these procedures became effective: August 31, 2023

Updated and Revised as of December 2022

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1 CHANGES TO THIS MANUAL

- Updates to supervision of annuity exchanges
- Revisions for Form CRS review and distribution
- Annuity concentration requirements

2 INTRODUCTION

Fortune Financial Services' Registered Representatives are independent contractors under the IRS definition of that term. All Registered Representatives maintain and pay for their own office space that Fortune designates as a branch. The firm is structured so that all RRs and all business is supervised from the home office by a team of licensed compliance professionals. There are no OSJ offices or field supervisors.

Fortune Financial Services, Inc. ("Fortune," or "the Firm") is a limited purpose broker dealer which only allows independent contractor Registered Representatives ("ICRR") to sell mutual funds and variable and indexed annuities. Our business model does not use a clearing firm or central platform. All business is transacted at and held directly by the issuing company. Before any sale is made it must be securely sent to our Compliance Department for review and approval. Only after compliance officers have reviewed the documents, not only in light of the clients' best interest, but also for integrity, is a sale approved and the RR allowed to submit the application to the investment company. The Firm also has controls and reports to ensure that these policies and procedures are adhered to.

This Supervisory Procedures Manual ("WSP" or "Manual") of Fortune Financial Services, Inc. describes its supervisory procedures and system required under Rule 3110. The Firm has established and maintains these supervisory procedures by taking into consideration the firm's size, organizational structure, limited scope of business activities, number and location of offices, the nature and complexity of products and services offered, the volume of business done, the number of associated persons assigned to each location and the disciplinary history of Registered Representatives or associated persons, among other factors. The Firm's supervisory system adopts compliance policies and supervisory procedures reasonably designed to achieve compliance with applicable securities laws and regulations and FINRA rules.
The Firm, in having this process and requiring its designated top business officer to certify annually regarding its implementation, is in compliance with Rule 3130.

In addition, the Firm has supervisory control procedures that test and verify that its supervisory procedures are reasonably designed to achieve compliance with applicable securities laws and regulations and FINRA rules. The Firm, also per Rule 3120, is committed to amending or creating additional supervisory procedures when required. Procedures designed to ensure compliance with Rules 3110, 3120 and 3130 are described throughout this Manual.

It is the obligation of the Firm to supervise the activities of its registered and associated persons. Each principal assigned supervisory responsibility (also referred to throughout this Manual as the "Designated Principal") has the obligation to ensure that the rules, regulations, and policies applicable to the business of Fortune are maintained and followed in the specifically designated areas of his/her supervisory responsibility. This Manual is not to be construed as all-inclusive, but rather serves as a guide in conducting the daily supervisory functions.

Fortune Financial Services, Inc. strives to maintain high standards of commercial and ethical conduct and just and equitable principles in its dealings. The Firm is dedicated to serving the best interests of its clients and complying with regulatory requirements.

Anti-Money Laundering Compliance. The Firm's AML compliance program is separate from this Manual. All associated persons must reference and abide by the procedures described therein.

Emergency Preparedness. The Firm's "Business Continuity Plan" is under separate cover. All Company personnel are encouraged to periodically review the Plan to be prepared for unforeseen business disruptions.

Approved Business. At this time, the Firm conducts securities business in variable insurance products, mutual funds including Section 529 Plans and equity indexed annuities (EIAs). Its clients consist of individuals, small businesses, andnon-profits (less than 1%). Should the Firm wish to change the nature of its securities business outside the scope of approved business as described in its Membership Agreement, it will request and obtain prior FINRA approval.

New Products. The CCO will ensure that no new product is introduced to the sales force before the CEO has thoroughly vetted and approved the product from a regulatory as well as a business perspective. The CEO has final authority to approve new products. Under the oversight of their Designated Principal, Registered Representatives are required to verify the approval status of all products before offering them to customers. The CCO is responsible for implementation of the Firm's guidelines for product approvals.

3 USE AND DISTRIBUTION OF THIS MANUAL

ALL Fortune Financial Services principals, designated employees, ICRRs and associated persons are required to have access to this Manual and to be familiar with its content. This Manual is currently available on the Firm's website, access at this address: www.fortunefinancialservices.com/ forms/ WSP.

All principals, designated employees, ICRRs and other associated persons of Fortune Financial Services, Inc. are required attest to reading, understanding, and complying with this Manual. Attestations are required at onboarding, and annually. Any changes/updates made to the manual will be posted on the Firm's website.

It should be noted that this Manual includes only those rules, regulations and policies that are most applicable to supervision of the day-to-day activities of the Firm's ICRRs and other associated persons. It is not all-inclusive of the laws and regulations with which the Firm and its associated persons must comply. To be specifically familiar with the many rules and regulations affecting registered and non-registered personnel, employees and ICRRs are encouraged to visit FINRA's Website (www.finra.org).

The most important rules and regulations that govern securities activity are the Securities Act of 1933, the Securities Exchange Act of 1934, including Regulation Best Interest, the Investment Advisors Act of 1940, FINRA Rules, MSRB Rules and equivalent state laws. These statutes, rules and regulations are quite complex, and all Registered Representatives and associated persons are advised to consult the Chief Compliance Officer ("CCO") for further clarification.

This Manual is a working document and shall be reviewed as needed in response to new or amended regulations, rules, and laws. At minimum, the CCO shall review this Manual annually, retaining copies of the prior version, and tracking changes for the review of other principals of the firm, and, upon request, regulators.

This Manual is the exclusive property of Fortune Financial Services, Inc. and, as such, its contents are confidential, and should not be revealed to any third party without the express written consent of the Firm. Upon termination, the ICRR's access to this document will cease.

4 SUPERVISORY PERSONNEL

The following sub-sections describe the compliance staff appointed by the Firm to conduct daily oversight of business activities, verifying compliance with all applicable securities laws and regulations and FINRA rules. The designated top business officer of the Firm, the CEO, is required to meet with the designated CCO, to be apprised of compliance issues, progress, and problems, if any, and will certify annually as to the Firm's compliance processes.

4.1 Chief Compliance Officer

The Firm has identified William Pintaric, Jr. as its CCO on Form BD and will promptly amend Form BD if such designation changes. The CCO is responsible for establishing, maintaining, and enforcing the Firm's Supervisory Control System. In general, the CCO attempts to ensure that the compliance and supervisory procedures outlined in this Manual are up-to-date, effective, and followed by all respective Company personnel. The CCO will oversee all compliance functions of Fortune. By implementing required testing of the Supervisory System, the CCO will be able to verify adherence to procedures and promptly rectify lapses in compliance.

FINRA rules require the CCO to be registered as a General Securities Principal unless the Firm's activities are limited to areas of the investment banking or securities business. Due to its limited business model, FFSI may appoint a CCO who holds the Limited Principal Investment Company and Variable Contracts Products (Series 26).

4.2 Executive Representative

Pursuant to FINRA requirements, the Firm must designate an Executive Representative to whom official FINRA notifications will be sent and who will have responsibility within the Firm for notifying applicable personnel. Each time the Executive Representative is changed, the Firm must notify FINRA of the change via regulation systems (Firm Contact System). As of the date of this manual, FFSI designates Gregory Bentley as its CEO. Mr. Bentley's credentials are provided below:

Executive Representative: Gregory Bentley, CEO

Principal's licenses and effective dates of designation:

Series 1 – 02/26/1980; Series 7 – 11/26/2008; Series 31 – 09/07/2005; Series 24 – 09/28/2009; Series 26 – 03/18/1993; Series 53 – 03/22/2012; Series 63 – 07/07/2003; Series 99 – 11/09/2011. Location: Home Office, Monaca, PA

4.3 Principal Financial Officer: Mitch Whitenack

Principal's licenses and effective dates of designation:

Series 7 – 09/28/2006; Series 24 – 11/06/2007; Series 27 – 08/21/2009; Series 66 – 11/20/2006; Series 99 – 11/09/2011. Location: Home Office, Monaca, PA

4.4 Principal Operations Officer: Mitch Whitenack

Principal's licenses and effective dates of designation:

Series 7 – 09/28/2006; Series 24 – 11/06/2007; Series 27 – 08/21/2009; Series 66 – 11/20/2006; Series 99 – 11/09/2011. Location: Home Office, Monaca, PA

4.5 Assigned Areas of Supervision

Fortune Financial Services, Inc. designates the following appropriately registered Principal(s) with authority to carry out the specified supervisory responsibilities of the Firm.

Area of Supervision or Title	Supervising Principal's Name	Location of Principal	Date Appointed
Business Continuity Plan	Gregory Bentley	Home Office	11-1-11
Communications with the Public	William Pintaric, Jr.	Home Office	8-9-21
Continuing Education	William Pintaric, Jr.	Home Office	8-9-21
Correspondence	William Pintaric, Jr.	Home Office	8-9-21
Correspondence—Email	William Pintaric, Jr.	Home Office	8-9-21
Customer Complaints	William Pintaric, Jr.	Home Office	8-9-21
Equity-Indexed Annuities (EIAs)	William Pintaric, Jr.	Home Office	8-9-21
Financial Reporting	Blake W. Daniels	Home Office	5-26-17
Investment Advisory Activities of RIAs; IAR's	William Pintaric, Jr.	Home Office	8-9-21
Licensing and Registration	William Pintaric, Jr.	Home Office	8-9-21
Mutual Funds	William Pintaric, Jr.	Home Office	8-9-21
Operations	Gregory Bentley	Home Office	11-1-11
Outside Business Activities and Private Securities Transactions	William Pintaric, Jr.	Home Office	8-9-21
Outsourced Functions	Gregory Bentley	Home Office	5-26-17
Personal Accounts	William Pintaric, Jr.	Home Office	8-9-21
Privacy Notices	Gregory Bentley	Home Office	5-26-17
Regulatory Systems Updates and Filings	William Pintaric, Jr.	Home Office	8-9-21
Special Supervision	William Pintaric, Jr.	Home Office	8-9-21
Statutorily Disqualified Persons	William Pintaric, Jr.	Home Office	8-9-21
Unit Investment Trusts (UITs) *(currently not offered)*	William Pintaric, Jr.	Home Office	8-9-21
Variable Products	William Pintaric, Jr.	Home Office	8-9-21

4.6 Home Office, Field Compliance and Administrative Support

All supervision is provided through the home office location. Supervisors and compliance support personnel are qualified by licensure (Series 26 or Series 24.) The names and qualifications of the supervisory personnel including the date of their assignment to this responsibility will be maintained separately by the CCO

The Firm's licensed salespersons operate from a location other than the Home Office. Each ICRR is subject to the oversight and supervision of qualified principals according to a supervisory chain of command established by the CCO

and approved by the CEO. The names and qualifications of the supervisory personnel including the date of their assignment to this responsibility will be maintained separately by the CCO.

In addition to ongoing routine reviews assigned at the discretion of the CCO, Home Office Supervisors perform the following functions:

- Primary sales supervision, supported by compliance and administrative personnel
- Review and approval of new accounts including best interest review
- Review and approval of submitted transaction blotters
- Monitor RR electronic communications, escalating concerns to the CCO as necessary
- Review and approval of attestations and disclosures such as Outside Activity Disclosure and other periodic, quarterly and/or annual questionnaire(s)
- Ensure compliance with the Firm's continuing education program, including at a minimum an annual compliance meeting for all personnel dealing with compliance issues, as well as any compliance courses.
- Resource for RR questions regarding the Firm's policies and procedures, sales practices, general concerns, and issues
- Implement the Firm's written supervisory procedures
- Periodically review all personal accounts and personal trading of RRs, if so designated, by review of account statements and trade blotters

Compliance and administrative personnel perform the following specific functions:

Communications review (written communications including faxes) prior to Home Office review

Collection and submission of transaction blotters

5 SUPERVISORY SYSTEM

FFSI has established, maintains, and enforces written procedures to supervise the types of business in which it engages and to supervise the activities of Independent Contractor Registered Representatives and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable FINRA rules.

In accordance with FINRA Rules, each Registered Representative of the Firm is assigned to appropriately registered Principals of the Firm. All licensed members of the Compliance Team collectively provide supervision. Individual responsibility for an approval, sale, activity, or exception is noted by the signature of the Compliance Officer allowing (ornot allowing) the activity.

The CCO is responsible for implementation of the firm's Supervisory System. Below, is a list of the components of the supervisory program. Separately, the CCO maintains a list of the individuals including their name, title, and the date they assumed the various functions.

- Providing all registered personnel with a current copy of (or access to) this Manual; the preferred method being the firm website
- Distribution of revised WSP Manual and other procedural changes to all personnel; the preferred method being the firm website/training tools.
- Periodic review of the compliance of registered personnel with the supervisory procedures; by telephone, e-mail and written correspondence, and field inspections
- Registering all branch offices (as defined) with FINRA via Form BR on the Firm Gateway/ WebCRD system

- Filing required amendments to Form BD and Form BR within 30 days of changes requiring FINRA notification on the Firm Gateway/ WebCRD system
- Ensuring proper licensing of all sales personnel in the jurisdictions where required, by collecting copies of current licenses and filing for licenses where needed
- Periodic review of the adequacy and timeliness of the Firm's required SEC, FINRA and MSRB regulatory systems filings
- Monitoring and testing the Firm's policies and procedures, taking corrective action where necessary

Under the oversight of the CEO, the Firm conducts a review, at least annually, of the businesses in which it engages, which is designed to detect and prevent violations of, and achieving compliance with, applicable securities laws and regulations and with applicable FINRA Rules. The Firm's Supervisory Control System, described in a separate manual, is designed to ensure, and further enhance compliance by spreading responsibility to the senior management level. The Firm reviews the activities of each office, as applicable, including periodic examinations of customer accounts to detect and prevent irregularities or abuses. Offices are inspected as described below in the sub-sections concerning Office Inspections and Home Office, branch, OSJ and non-branch office supervision.

5.1 Registration and Supervision of Branch, OSJ and Non-Branch Offices

"Branch office," as defined by FINRA, is any location where one or more associated persons of Fortune regularly conducts the business of effecting any transactions in or inducing or attempting to induce the purchase or sale of, any security, or that is held out as such. (Technically, the Home Office is a branch office by definition and is subject to the same registration and reporting requirements described immediately below; however, for purposes of this section, branch offices are those outside the Home Office.)

The CCO is responsible to ensure disclosure via Firm Gateway/ WebCRD of all required branch office information on Form BR, including, but not limited to: general firm information, supervisors and other persons in charge, branch registration category and type of office, types of business activities conducted, office business names or 'DBAs', websites other than the main one, expense and space sharing arrangements, CRD number of all registered persons working from each location, and identification of all non-licensed associated persons.

5.1.1 OSJ Branch Offices

Currently Fortune does not maintain any OSJ branches. The Home Office provides all supervision

If, in the future, Fortune decides to designate an OSJ Branch, the following policies will apply.

A supervisory branch is a location that is responsible for supervising the activities of associated persons at non-branch offices. A non-supervisory branch is a location requiring registration, but not supervising other RR activity at other office locations. Each OSJ and supervisory branch office must be inspected annually.

A branch office must be registered as an **Office of Supervisory Jurisdiction** (**OSJ**) if one or more of the following functions take place at that office:

- Review and endorsement of customer orders, within certain restrictions
- Final approval of advertising or sales literature for use by persons associated with the Firm, within certain restrictions
- Responsibility for approving the activities associated with the Firm at one or more other branch offices of the Firm

The CCO or other designated Principal must also consider the following criteria when determining whether any of its offices shall be designated as an OSJ:

- Whether registered persons at the location engage in retail sales or other activities involving regular contact with public customers
- Whether a substantial number of registered persons conduct securities activities at, or are otherwise supervised from, such location
- Whether the office is located in a state that requires supervision by a Principal
- Whether the business of the office is such as to require independent supervision
- Whether the location is geographically distant from another OSJ of the Firm
- Whether the Registered Representatives assigned to the office are geographically dispersed
- Whether the securities activities conducted at the office are diverse or complex

5.1.2 Non-OSJ Branch Offices

A "branch office" is any location where one or more associated persons of a member regularly conducts the business of effecting any transactions in or inducing or attempting to induce the purchase or sale of, any security, or is held out as such. “Held out” means communications where the ICRR directs correspondence, questions, phone calls, inquiries etc. to be sent. If a location is included in retail communications with clients, then that office is being held out as a branch office.

A branch office is where the ICRR maintains client files and other books and records. Even if the records are stored “in the cloud,” a physical location where books and records can be accessed is branch office. This includes a private, personal residence unless it meets the following exclusions:

- Only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, conduct business at the location
- The location is not held out to the public as an office and the associated person does not meet with customers at the location
- Neither customer funds nor securities are handled at that location;
- The associated person is assigned to a designated branch office, and such designated branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person;
- The associated person's correspondence and communications with the public are subject to the firm's supervision in accordance with this Rule;
- Electronic communications (e.g., e-mail) are made through the member's electronic system;
  All orders are entered through the designated branch office, or an electronic system established by the memberthat is reviewable at the branch office;
- Written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member; and
- A list of the residence locations is maintained by the member;

Non-supervisory branches and non-branch offices must be inspected no less frequently than every 36 months.

5.1.3 Non-Branch Offices

A “Non-Branch Office” is a location from which the Firm may conduct securities business, but that is exempt from registration as described under Rule 3110. Below is a description of the types of offices exempt from registration and the conditions that must be met:

- A non-sales location/back office. No sales activities may take place from such a location and the office must not be held out to the public as a branch office
- A location, other than the primary residence (such as a vacation or second home), that is used for fewer than 30 'business days' annually for securities business, is not held out to the public as an office, and which satisfies the conditions described above in the primary residence exception; "business day" does not include any partial business day, as long as the associated person spends at least four hours on such day at his or her designated branch office during the hours that such office is normally open for business;
- An 'office of convenience,' where an associated person occasionally and exclusively by appointment meets with customers, provided it is not held out to the public as an office. An associated person may not establish regular business hours at such location or hold out the location in any way. Final approval and execution of transactions must be done through the branch office;
- A location where associated persons are primarily engaged in non-securities activities (e.g., insurance sales) and from which an associated person effects no more than 25 securities transactions in a calendar year. All advertisements and sales literature, including business cards, identifying the location must also include the locations from which the associated person or persons are directly supervised. All securities transactions originating from such locations must be entered through, and supervised by, the associated person's designated branch office. Once the 25-securities transaction threshold is exceeded, the Firm will have 30 calendar days in which to register the location as a branch office;
- A temporary location established in response to the implementation of a business continuity plan.

5.2 Designation of OSJ/Non-OSJ Branch Principals

The Firm's CCO is responsible for oversight of the designation of principals in compliance with FINRA rules, as described below.

Currently Fortune does not maintain any OSJ branches. The Home Office provides all supervision.

If, in the future, Fortune decides to designate an OSJ Branch, the following policies will apply.

FINRA Rule 3110(a)(4) requires a firm to designate one or more appropriately registered principals in each OSJ (defined in FINRA Rule 3110.03 as the "on-site principal") and one or more appropriately registered representatives or principals in each non-OSJ branch office with authority to carry out the supervisory responsibilities assigned to that office by the firm.

FINRA Rule 3110.03 (Supervision of Multiple OSJs by a Single Principal) clarifies the requirement in FINRA Rule 3110(a)(4) for a firm to designate one or more appropriately registered principals in each OSJ with the authority to carry out the supervisory responsibilities assigned to that office. The designated on-site principal for each OSJ must have a physical presence, on a regular and routine basis, at each OSJ for which the principal has supervisory responsibilities. The rule establishes a general presumption that a principal will not be designated and assigned to be the on-site principal pursuant to Rule 3110(a)(4) to supervise more than one OSJ. If a firm determines it is necessary to designate and assign a principal to be the on-site principal supervising two or more OSJs, then the firm must consider, among other things, the following factors:

- whether the on-site principal is qualified by virtue of experience and training to supervise the activities and associated persons in each location
- whether the on-site principal has the capacity and time to supervise the activities and associated persons in each location
- whether the on-site principal is a producing registered representative
- whether the OSJ locations are in sufficiently proximity to ensure that the on-site principal is physically present at each location on a regular and routine basis
- the nature of activities at each location, including size and number of associated persons, scope of business activities, nature and complexity of products and services offered, volume of business done, the disciplinary history of persons assigned to such locations and any other indicators of irregularities or misconduct

FINRA Rule 3110.03 further requires the Firm to establish, maintain and enforce written supervisory procedures regarding the supervision of all OSJs. The Firm's CCO shall undertake all such responsibility. In all cases where the CCO designates and assigns one on-site principal to supervise more than one OSJ, the CCO will document the factors used to determine why the Firm considers the supervisory structure to be reasonable.

5.3 Office Inspections

Under FINRA Rule 3110(c), the Firm requires announced and unannounced cycle inspection of its offices as generally described above for each office type.

Under the leadership and authority of the CCO, the Firm establishes a time and risk-based cycle for inspecting each of its office locations.

The Compliance Department consists of a small group of trained professionals, none of which have sole responsibility any one area of compliance operations, though there are areas in which they specialize, such as sales, advertising, or surveillance. Continual training and shared knowledge and experience is part of the compliance program.

Because of the centralized supervision model that we employ, branch exams may be completed by Compliance Personnel who also review and approve sales and reporting or conduct surveillance. To mitigate this, Fortune attempts to rotate the exams among the staff, data reviews are conducted prior to on site exams and a secondary review of the summary is conducted by the CCO or CEO as evidenced as above. The CCO and CEO may also conduct exams and may not sign off on those exams.

Whenever possible, inspections shall be performed by an employee of the Firm who is independent of the supervisory chain of command for the subject RR. Inspections must be conducted by someone independent of supervisors of the office being inspected. Inspections may not be conducted by anyone who:

- Supervises the office being inspected (branch manager, etc.)
- Is another supervisor in that office
- Is directly or indirectly supervised by either of the prior-listed supervisors or someone who directly supervises those office supervisors

FINRA Rule 3110(c)(3) retains, with modifications, NASD Rule 3010(c)(3)'s exception for firms with limited size and resources from the general prohibitions regarding who can conduct a location's inspection. As such if the Firm determines that it cannot comply with FINRA Rule 3110(c)(3)'s general prohibitions, it will document in the inspection report both the factors used to make its determination and how the inspection otherwise complies with FINRA Rule 3110(c)(1). The Firm's CCO may generally rely on the exception because it has a business model, where small or single person offices report directly to an OSJ manager who is also considered the offices' branch office manager (*e.g.*, independent contractor business model). The CCO and CEO may themselves perform inspections of branch, non-branch and OSJ offices.

The CCO is responsible for striving to ensure that inspections are not compromised due to the conflicts of interest that may be present with respect to the location being inspected, including but not limited to, economic, commercial, or financial interests in the associated person and businesses being inspected.

The Firm will inspect non-supervisory offices based on calendar and/or risk-based inspection cycle. The frequency of the inspections will be determined as follows:

- Branches will be evaluated using an internal risk assessment to determine whether any factors require the branch to be inspected annually

- Consistent with FINRA rules, any office designated as an Office of Supervisory Jurisdiction will be inspected annually.
- For those branches that qualify for inspection less frequently than annually, the risk assessment will be utilized to determine the frequency of examination, so no branch shall be inspected less than every three years
- Some offices may be inspected on an unannounced basis

At any time, a branch office may be identified for an immediate "for cause" inspection, as determined by the CCO. A "for cause" inspection may be initiated considering serious regulatory or disciplinary actions against branch personnel; serious or a pattern of complaints; thefts; fraud; suspected money laundering activities; or other malfeasance by branch personnel.

The CCO is responsible for determining whether a routine office inspection is announced or unannounced. In selecting which if any office inspections shall be unannounced, the CCO will take into consideration:

- Red flags such as poor compliance with company requirements
- Input from office operations personnel
- Customer complaints
- 'High Maintenance' RRs
- RRs with high volumes of advertising and/or seminars

The CCO will maintain inspection reports for each office inspection conducted for three years. The written report will include the name of the person who conducted the inspection and prepared the report. Each written report will be dated and will provide results from the testing and verification of the Firm's policies and procedures, including supervisory procedures in the following areas:

- Safeguarding of customer funds and securities
- Supervision of supervisory personnel
- Maintaining books and records
- Supervision of customer accounts
- Transmittal of funds securities from customers to
  - third party accounts;
  - to outside entities;
  - to locations other than a customer's primary residence; and
  - between customers and registered representatives, including the hand-delivery of checks;
- Validation of customer address changes and
- Validation of changes in customer account information including investment objectives

Remote Inspections

The pandemic of 2020 has caused business interruptions. As a result, FINRA has allowed branch offices to be inspected in a virtual setting, in lieu of in person meetings. FFS prefers to inspect the office in person but understands the hardships the pandemic has now caused.

- The reviewer may conduct the branch review through Zoom or WebEx
- The reviewer may complete the audit questionnaire virtually
- The reviewer may need to ask the representative to send certain items requested for review

Final reports will be provided to senior management.

National/Regional Disruptions

5.4 Conditions of Registration, Including Termination

Each Registered Representative should understand that association with Fortune is not a right but a privilege. Continuing and diligent compliance with the Firm's policies and procedures and an ability to coordinate and grow with the Firm's business objectives will generally mean that a Representative is welcome, supported and encouraged to stay. However, the Firm's management retains the power, at its sole discretion, to retain or terminate the registration of any person at any time and for any reason.

Upon termination of registration, the CCO or designee is required to file notice thereof with FINRA on Form U5 within 30 days of the effective date of such termination. This filing must take place electronically on Firm Gateway/ WebCRD. Upon receipt of Form U-5 in proper order, FINRA will amend the CRD record of the Representative to reflect the termination. The designated Principal or his designee must provide the Representative with a copy of his Form U-5 within 30 days of the time the filing is made and will evidence that a copy of the Form U-5 in a manner deemed appropriate by the CCO. RRs are hereby advised that there are sections of the Form U4 and U5 that they may individually amend post-termination. Instructions for making such amendments are found on the FINRA website.

Upon termination, the CCO shall file an amendment to Form BR as appropriate to notify FINRA of the branch closure, if applicable.

FINRA rules provide that no Registered Representative shall continue to be associated with a member Company if he/she fails or ceases to satisfy the qualification requirements or becomes subject to disqualification. Grounds for disqualification include:

- violation of FINRA Rules
- making of false statements in applications or reports
- conviction of a securities related crime
- being enjoined by a court from engaging in any securities related business
- failing to maintain effective licensure

Also, registered persons of the Firm are not permitted to "park" their registrations; that is, the Firm will not maintain FINRA registration for any person:

- who is no longer active in the Firm's securities business
- who is no longer functioning as a representative
- where the sole purpose is to avoid FINRA qualification examination requirements

Each Designated or Supervising Principal of the Firm is required to report to the CCO any individual whose registration could be considered to be "parked." The CCO must investigate and terminate such employee, if deemed appropriate given the circumstances. Records of this investigation and termination will be maintained under the oversight of the CCO.

In the event of a serious concern as to the appropriateness of an ICRR's continuing association with Fortune, management may (and in cases where FINRA Rules require it, management shall) terminate the Representative's association with the Firm and submit all relevant electronic filings. In the event of termination, voluntarily or otherwise, the Firm will vigorously seek to assert and maintain any rights under non-competition or other arrangements to which the Representative is subject.

The Registered Representative, should he/she be terminated by the firm, voluntarily resign from association with the firm, and/or be disciplined by any regulatory authority, resulting in suspension or loss of license, will not be refunded, in whole or in part (pro-rata), any fees paid to be associated with, and/or continue to be associated with the firm.

The CEO is the final decision maker with regard to the content of all termination-related regulatory filings. The CEO has ultimate authority to determine the reason for termination.

5.5 Annual Compliance and Supervision Questionnaire

Each year the Firm's CEO will certify that the Firm has in place processes to establish, maintain, review, test and modify written compliance policies and supervisory procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules, and federal securities laws and regulations and has conducted one or more meetings with the CCO in the preceding 12 months to discuss the processes. In these meetings, the CCO and designated top business officer will discuss and review the matters that are the subject of the certification; discuss and review the Firm's compliance efforts as of the date of such meetings; and identify and address significant compliance problems and plans for emerging business areas.

This certification is required under FINRA Rule 3130(b) and will be in the form outlined in IM-3130.

5.6 Heightened Supervision

Certain behavior, performance or track record(s) may indicate that Heightened Supervision for that individual is appropriate. These circumstances are such as to indicate that, while the person can function well within the regulatory regime, certain aspects of the person's history point to a need for more than the usual level of attention by supervisory personnel.

Indicators of such a need may include (but are not limited to):

- A history of customer complaints, disciplinary history, or securities-related litigation/arbitration
- A prior termination for a significant sales practice or regulatory violation
- A frequent change of broker-dealers within the industry
- Excessive trade corrections, extensions, and liquidations
- Personal or financial stress
- Former employment at a "disciplinary firm"
- Statutory disqualification pursuant to SRO or another jurisdiction

The foregoing considerations would apply as well to personnel hired in a non-representative capacity, who had formerly been RRs and had experienced any of the above-listed "red flags" or relevant activities.

At the discretion of the CCO, Fortune will develop Heightened Supervision for such a person designed to diminish the concerns raised by the "red flags." The designated Principal will carry out the terms of this Heightened Supervision, which will be documented in the personnel records of the individual and may include:

- Restrictions on the kinds of activities engaged in
- Monitoring customer account activity, correspondence, and phone calls
- Special training such as extra or tailored firm element compliance training course(s)
- Assignment to a field supervisor responsible for administering the Heightened Supervision
- Increased level of visits, inspections, reviews of records and transactions

- Initial meeting to obtain commitment of RR to the program
- Agreed upon consequences if program does not work
- Timeline and periodic progress review to determine success

The CCO considers the following steps in cases where deficiencies are identified in (1) supervisory procedures, (2) supervisory systems or (3) compliance by individuals with the procedures or systems:

- Review and/or investigation by designated Principal(s)
- Report and/or review by Compliance Department
- Change (if required) in procedures or systems
- Change (if required) in duty assignments
- Replace (if required) personnel
- Discipline (if required) individuals involved, including:
    - Fine or other monetary penalty
    - Restriction in business activities or types of customers
    - Assignment to heightened supervision or monitoring
    - Additional Continuing Education, as assigned
    - Reassignment, suspension, or termination
- Any required reports filed with regulatory agencies

All Registered Representatives of the firm should take note, that Fortune incurs additional expense in administering the terms of remediation and/or Heightened Supervision. The extra costs incurred by the firm to administer remedial action, including Heightened Supervision, are the sole responsibility of the registered representative, and will be deducted from the RRs commissions or billed accordingly.

6 LICENSING/HIRING

The CCO supervises the hiring, conduct and actions of Registered Representatives and all other associated persons. Prior to hiring, the CCO shall oversee a reasonable independent investigation of all persons applying for registration or association with Fortune, including contacting previous employers for verification of prior affiliation and to attempt to ascertain whether any undisclosed disciplinary history exists. If hiring a licensed person, the CCO shall obtain a copy of the most recently filed Form U5. A record of these investigations will be retained in the RR's file.

6.1 Who is Required to be Registered?

In General - FINRA Rule 1210 establishes the parameters for registration in various categories including sales, supervisory, operations and administrative personnel engaged in accepting and processing unsolicited customer orders for execution, among others. The SEC interprets the term 'associated person' to include any independent contractor, consultant, franchisee, or other person providing services to a broker-dealer equivalent to those services provided by the persons specifically referenced in the statute. Fortune will not register any person as a Representative where there is no intent to employ such person in securities business.

Principal Registration. All persons who are actively engaged in the management of the Firm's securities business, including supervision, solicitation, conduct of business or the training of persons associated with the Firm are required to attain principal licensure. Every OSJ, if any, shall be supervised by at least one registered principal. "Actively engaged" means day-to-day conduct of the member's securities business and the implementation of corporate policies

related to such business. Thus, directors or persons with a similar official position who have a role to play but are not "actively engaged" need not register.

6.2 Documentation

The following documents must be obtained, if appropriate, and reviewed and approved in writing by a Compliance Officer in connection with and in advance of any person becoming associated with the firm as a Registered Representative and/or non-registered employee:

Signed Form U-4 (including employment and disciplinary history) or similar form

- Fingerprint cards or electronic equivalent
- Verification of employment from the most recent employer(s) for the last three years (may be verbal)
- OFAC Check
- Form U-5 from the representative's previous broker/dealer (accessed through Firm Gateway/ WebCRD)
- Verification of information contained on Form U4

In addition, Fortune may require, and the CCO may review, any or all the following when evaluating whether to register a person with them:

- Application for employment
- Mandatory disclosure of any financial disclosure events, including judgments, liens, bankruptcy, or all other events that may have involved a compromise with creditors
- Background check, including a CRD Pre-hire report, FBI report, and/or scoring or non-scoring credit check (with written permission from the candidate to be obtained by the CCO in advance of obtaining any such checks or reports)
- Registered Representative Agreement

Prior to having an associated person sign a new or amended Form U-4, the designated Principal shall ensure that the person has been provided with disclosure information regarding the pre-dispute arbitration clause contained within the Form U-4 and the associated person's rights and/or obligations thereunder (as required by FINRA Rule 2263).

Fortune is required to electronically file Form U-4 with FINRA, as well as all amendments and supplements. The CCO is responsible for overseeing these electronic filings. The CCO shall be responsible to ensure that all required amendments to Form U4 are filed within 30 days of the change being reported, or sooner if required by regulation.

ICRRs are responsible for the accuracy and completeness of their Form U-4 and failure to report any discrepancies or changes to the Firm may result in disciplinary action and could subject the representative to regulatory action. This includes but is not limited to:

- the RR's responsibility to provide complete information regarding any disciplinary event or "yes" answer including any financial disclosure event
- any outside business activity,
- change in address or other contact information
- updates to these and other required information on an ongoing basis

FINRA Rule 3110(e) requires that a firm adopt written procedures reasonably designed to verify the accuracy and completeness of the information contained in the applicant's Form U4 by no later than 30 calendar days after an initial or a transfer Form U4 is filed with FINRA. In addition, FINRA Rule 3110(e) requires that a firm's verification process

must, at a minimum, provide for a national search of reasonably available public records conducted by the firm or a third-party applicant's Form U4. Public records include, but are not limited to general information, such as name and address of individuals, criminal records, bankruptcy records, civil litigation and judgments, liens, and business records.

6.3 Fingerprinting

SEC Rule 17(f)(2) requires all RRs and certain unregistered associated persons to be fingerprinted. The CCO or her designee provides information to all prospective registrants on how to complete electronic fingerprints to be filed with FINRA.

If electronic fingerprinting fails, or is not available, fingerprint cards provided by Fortune must be completed and sent to FINRA for review and processing. Copies of the cards will be maintained in employee files. When relying on off-site, third parties to collect fingerprints, the Firm requires applicants to be fingerprinted at a local law enforcement office, where officers likely are trained to verify identity as well as the authenticity of identification cards presented or such other independent, third-party providers who are satisfactorily qualified (the Firm does not allow applicants to fingerprint themselves). If considered necessary, the Designated Principal or the CCO will notify local law enforcement officials to inform them of securities industry fingerprinting requirements and to discuss reasonable identification verification procedures. In some cases, this Principal or designee will provide applicants with a list of acceptable third-party vendors that provide fingerprinting services.

Copies of employee-related forms, such as Forms U-4 and U-5, and fingerprint cards are maintained in employee files, or electronically as deemed appropriate by the CCO.

No Registered Representative may solicit or conduct securities transactions before such individual has been approved by FINRA and the applicable state. The designated Principal shall ascertain that all requirements have been met before any business is conducted by verification of the Representative's status report from CRD demonstrating approval by FINRA and applicable states *(see below).*

6.4 Form U-4 and Other Disclosure Rules

The U-4 of each registered person must disclose the branch office in which they work ("office of employment address"). If a person works from a non-branch office, the U-4 must disclose that office address in addition to the branch office by which they are supervised.

FINRA requires U-4 disclosure of prior disciplinary or other matters (Disclosure Questions). The CCO will carefully review each applicant's answers to the Disclosure Questions. Disclosure of the following is required:

- Criminal events
- Regulatory actions taken against an individual
- Civil/Judicial actions
- Pending investigations
- Written consumer-initiated complaints claiming damages of $5000 or more, forgery, theft, or misappropriation or conversion funds or securities
- Consumer –initiated complaints settled for $10,000 or more
- Consumer-initiated arbitration proceedings
- Outstanding judgments and liens
- Bankruptcy proceedings

The above list is not all-inclusive; disclosure questions can be found under Item 14 of the Form U-4. Details to any "yes" answer must be reported on Disclosure Reporting Pages (DRPs). Registered Representatives who have questions on disclosable events should go to FINRA's website, for interpretive guidance. It should be noted that all disclosures will be manually reviewed by FINRA Disclosure Review as well as state securities regulators. States have the right to deny individual registrations based on disclosures.

For Registered Representatives who are dually registered a concurrence filing must be filed through Firm Gateway/ WebCRD for any U-4 amendment.

6.5 Changes to Form U4

Fortune is required to electronically file Form U-4 with FINRA, as well as all amendments and supplements.

The CCO shall be responsible to ensure that all required amendments to Form U4 are filed within 30 days of the change being reported, or sooner if required by regulation.

RRs are responsible for the accuracy and completeness of their Form U-4 and failure to report any discrepancies or changes to the Company may result in disciplinary action and could subject the representative to regulatory action. This includes but is not limited to:

- the RR's responsibility to provide complete information regarding any disciplinary event or "yes" answer
- including any financial disclosure event
- any outside business activity,
- change in address or other contact information
- updates to these and other required information on an ongoing basis

Failure to provide notice of changes to U4 in a timely manner will result in the RR paying any late fees

6.6 State Registrations

No ICRR may solicit or conduct securities transactions in a given state before such individual's registration has been approved to conduct securities business in that state or the CCO has determined that registration is not required because of an exemption in that state. On an ongoing basis RR's Compliance shall review transactions to ensure that Registered Representatives are registered where required and will not approve transaction where registration is not approved or exempted.

6.7 Designated Supervisors

In accordance with FINRA Rules, each Registered Representative of the Firm is assigned to appropriately registered Principals of the Firm. All licensed members of the Compliance Team collectively provide supervision. Individual responsibility for an approval, sale, activity, or exception is noted by the signature of the Compliance Officer allowing (ornot allowing) the activity. The CCO is responsible for making the determination that Compliance Officers are qualified by experience or to arrange training to ensure the person is qualified to supervise.

In the event the Firm considers hiring an applicant subject to statutory disqualification, the CCO will complete/oversee the Form MC-400 with FINRA. Registration approval will be necessary before the employee conducts business activities for the Firm; additionally, the employee's supervisor will carry out Heightened Supervision as required under an agreement with the applicable SRO reviewing the disqualified person. Records of such supervision will be kept by the CCO. Please refer to "Heightened Supervision" herein for further details. Note that statutorily disqualified persons seeking employment in strictly clerical or ministerial capacities are also subject to FINRA's pre-approval via the MC-400 filing process.

6.8 Termination of Registration; Continuing Commissions

Within 30 days of termination or resignation of a registered person, the Firm is required to electronically file notice thereof with FINRA on Form U-5 disclosing the reasons for termination, under the oversight of the CCO. Within 30 days of filing the Form U-5, the designated Principal or designee must provide the Representative with a copy of his/her Form U-5. The designated Principal will ensure that a copy of the submitted U5 is thus provided and will retain evidence.

FINRA Rule IM-2040-2 allows the Firm to pay continuing commissions to persons who remain Registered Representatives and, after they cease to be registered, such persons, their beneficiaries, or their estates provided that there is in existence a bona-fide contract for such payment. The arrangement may not include continuing payments for the solicitation of new business or the opening of new accounts. The provisions of the Rule should be consulted before any arrangements are entered into.

6.9 Financial Services Affiliate Waiver Program

Effective October 1, 2018, FINRA implemented a waiver program for individuals who terminate their registrations as representatives or principals to go to work for a foreign or domestic financial services industry affiliate of a member firm. Under the waiver program, individuals who go to work for a financial services industry affiliate of a member firm would terminate their registrations with Fortune and would be granted a waiver of their requalification requirements, upon reapplying with FINRA for registration as a representative or principal, subject to the following conditions:

- he individual must have been registered as a representative or principal for a total of five years within the most recent 10-year period prior to his or her initial designation under the waiver program;
- the individual must have been registered as a representative or principal for at least one year prior to his or her initial designation under the waiver program with the member firm that is designating him or her;
- all waiver requests under the program must be made within seven years of the individual's initial designation;
- the individual's initial designation and any subsequent designation must be made concurrently with the filing of the individual's related Form U5;
- the individual must have continuously worked for a financial services industry affiliate of a member firm since his or her last Form U5 filing;
- the individual must have complied with the Regulatory Element of CE; and
- the individual must not have any pending or adverse regulatory matters, or terminations, which are reportable onthe Form U4 and must not have been subject to a statutory disqualification as defined in Section 3(a)(39) of theExchange Act while eligible under the program.

Individuals would be eligible for a single, fixed seven-year waiver period from the date of their initial designation, and the period will not be tolled or renewed. However, individuals are not required to return to the member firm that designated them as eligible for a waiver under the program. They could return to a firm other than the one that designated them

Further, during the seven-year period, an individual can move back and forth between a member firm and its affiliate or move to another member firm. An individual could also move between the financial services affiliates of a member firm or move from a financial services affiliate of one-member firm to the financial services affiliate of another member firm, so long as the individual is continuously working for a financial services affiliate of a member firm since his or her last Form U5 filing.

While individuals must be continuously working for a financial services affiliate of a member firm to be eligible for a waiver, FINRA recognizes that eligible individuals may need sufficient time to transfer between member firms and their

affiliates or between affiliates of member firms. FINRA expects eligible individuals to make such transfers promptly and no later than 30 calendar days.

Under the program, Fortune is responsible for designating eligible individuals upon terminating their registrations, requesting waivers, and providing the necessary representations upon registering them.

- When a registered person is transferring to a financial services industry affiliate of a member firm, the member firm with which the individual is associated must designate the individual as an eligible person by notifying FINRA.
  - Firms must notify FINRA through the CRD system.
- The firm must also concurrently file a Form U5 to terminate the individual's registration with FINRA, which would also terminate the individual's other SRO and state registrations.
  - BrokerCheck® would reflect that the individual is no longer registered or associated with a firm. An individual cannot be registered with a member firm while working for a financial services industry affiliate of a member firm.
- An individual who has been designated as eligible under the program will not be able to take additional examinations to gain additional registrations while working for a financial services affiliate of a member firm.
- An eligible individual will be subject to a Regulatory Element program that correlates to his or her most recent registration category, and CE would be based on the same cycle had he or she remained registered.
- If the individual fails to complete the prescribed Regulatory Element during the annual requirements he or she would lose eligibility under the waiver program (i.e., the individual would have the standardtwo-year period after termination to re-register without having to retake an examination).

Eligible individuals will be responsible for providing FINRA their contact information, including a valid email address, and for updating such information. Eligible individuals will also be responsible for paying the CE fee.

To request a waiver, the firm must also submit an examination waiver request to FINRA, similar to the process used today for waiver requests. As part of the waiver request, the firm must represent that the individual has satisfied the conditions of the waiver, as described above. While FINRA will rely on the firm's representation, FINRA may also independently verify whether the individual has satisfied the conditions of the waiver. FINRA will review the waiver request and determine whether to grant the request within 30 calendar days of receiving the request.

Individuals who do not qualify for a waiver under the program may still be eligible for a waiver under FINRA's general waiver process, which FINRA evaluates on a case-by-case basis.

6.10 Active-Duty Professionals

In the event any of the Firm's ICRRs volunteer or are called into the Armed Forces of the United States, the designated Principal shall notify FINRA (or ensure that such RR's have provided notification) and the Registered Representatives will be placed on specially designated "inactive" status. Such ICRRs need not be re-registered by the Firm upon their return to active employment with the Firm.

Rule IM-1000-2 was further amended in November 2005 and January 2006 to further clarify

- that the scope of relief provided under the rule extends to any registered person of a firm who volunteers for, or is called to active duty, not just Registered Representatives

- the staff's existing interpretation permitting the receipt of transaction related compensation by registered persons who volunteer for or are called into active military duty is permitted
- that the relief provided to a registered person called into active duty is available to the person during the period that they remain registered with the firm, regardless of whether they resume their employment with the firm upon completion of their active military duty
- that the "inactive" status designation is available to registered persons and sole proprietors and is available to them only while they remain on active military duty
- the tolling provisions of the rule with respect to the two-year expiration provisions for qualification examination requirements set for in Rules 1021 (c), 1031 (c), and 1041 (c) for certain former registered persons serving in the Armed Forces of the United States, including persons who commence their active military duty within two years after they have ceased to be registered with a member and persons who terminate their registration with a member while on active military duty

Persons placed on inactive status while serving and subsequently terminate their relationship with the member prior to completing their service will lose their inactive status designation for the purposes of this rule.

6.10.1 Notification Requirements

The member firms are required to provide FINRA with the following information (once the person's military service has started) relative to persons who seek inactive status pursuant to IM-1000-2:

- A copy of the individuals orders or official call-up notification or a copy of leave request (for individuals that volunteer)
- A letter from the firm (on firm letterhead) to FINRA indicating:
  - Firm CRD #
  - Date the person's active military service started
  - The person's name
  - The person's CRD

When the individual terminates or completes their active military service, the following information must be provided to FINRA:

- A copy of the individual's discharge papers indicating the start and end dates of service
- A letter from the firm (on firm letterhead) to FINRA indicating
  - Firm CRD #
  - Date the person returned to the firm
  - The person's name
  - The person's CRD #

As described in *Section 16* below, a Registered Representative who is placed on inactive status as described above will not be required to complete either of the Regulatory or Firm Elements of the continuing education requirements while on such inactive status.

7 SUPERVISORY PROCEDURES

In compliance with FINRA Rule 3110(d), a supervisor shall consider each transaction in the overall supervisory review. To perform supervision of this scope, the CCO has implemented the use of Jaccomo software that captures all transactions, and provides a platform for review of all, or by exception based on the specific criteria, inspection, theme, or initiative then in place. Evidence of such review shall be noted in any electronic or paper-based manner deemed appropriate by the CCO.

On a periodic basis or upon material change/addition/revision to the scope of each system but no less than annually, the CCO shall review the parameters for the automated system and adjust as necessary to ensure consistency with the Firm's risk profile. The CCO shall record the nature of the review including the results along with any changes made to the parameters.

Rule 3110 requires that changes in account name or designation must be approved by the Designated Principal. Evidence of such approval shall be retained among the Firm's central compliance files.

The supervisory reviews will include an assessment of the nature of the trades, to confirm suitability (as described in detail elsewhere in this Manual). In addition, the Designated Principal shall review relevant documentation associated with opening new accounts, such as New Account Forms, investor profiles, risk disclosure documentation and investor payments/checks. *See Section 10* for a detailed description of compliance requirements related to new accounts. Additional specific customer/transaction review activities required of the designated Principals of the Firm are described in the sections to follow.

7.1 Conflicts of Interest

The Firm CCO will diligently monitor the supervisory chain of command, supervisory performance, and supervisory reviews to identify potential conflicts of interest that may be present with respect to the associated person being supervised. In making any determination that a potential conflict exists, the CCO will consider the supervised person's position, the amount of revenue such person generates for the firm or any compensation that the supervisor may derive from the associated person being supervised. This provision does not impose a strict liability obligation to eliminate all conflicts of interest, but rather requires that the supervisory procedures be reasonably designed despite the Firm's conflicts of interest.

7.2 Investigations of Questionable RR Activity and Disputed or Unauthorized Transactions

In the event of questionable Representative activity suspected by a supervisor, the RR may be questioned about the activity and may be required to present a written explanation. A file will be kept in which documentation of the situation and its resolution is described.

Potential indicators of unauthorized transactions may include a pattern of:

- Customer complaints to the home office Compliance Staff
- Illogical or unexplained account activity
- Frequent switches or reallocations

The CCO will consider the facts and decide as to resolve any conflict. Review and corrective action may include the following, depending on the circumstances:

- Confer with Registered Representative
- Contact customers directly to confirm authorization of transactions
- Cancellation of unauthorized transactions
- Further disciplinary action at the discretion of the CCO

7.3 Suitability Review

When a RR recommends a product to a prospective customer, the ICRR must make every reasonable effort to ensure that the recommended product is suitable for that prospective customer. This judgment must be based upon the prospect's investment objectives, investment experience, risk tolerance, tax status, financial situation, time horizon, liquidity needs, overall investment strategy, and other relevant factors. ICRRs must consider any recommendation, even a recommendation to hold a security in the account, to require a suitability analysis.

The requirement for suitable recommendations applies to buy, sell and to hold recommendations. RRs are required to document explicit hold recommendations using a method that is readily searchable and accessible upon request by the CCO or a branch examiner.

The simple rule to remember is that the recommendation must be in the customer's best interest and appropriate considering the customer's personal financial circumstances. The RR is the best judge of suitability and is best able to identify any real or perceived conflict of interest. Based on ongoing communications with clients, the RR is required to document each update to the client's profile, to include the date, and the new information.

In considering transactions for suitability, special attention should be paid to the following:

- First time purchasers of a particular type of security
- Transactions requested under questionable authority
- Transactions for personal or family accounts of associated persons
- Unusual, frequent and/or sizable transactions for the same customer
- Selling below breakpoints - a recommendation to a customer to purchase mutual fund shares for a quantity just beneath the point where the customer could significantly save commission charges by purchasing more shares may mean a bigger payment for the RR, but is not normally in the customer's best interests - Breakpoint sales are strictly prohibited
- Switching of mutual funds - Switching a customer among funds with similar investment objectives with no investment purpose may impose another commission charge and increased tax liability needlessly for the customer. This practice raises questions of suitability because of the unfavorable tax consequences and additional sales charges (with limited exceptions, mutual funds are long term investments).
- Transactions with elderly customers (keep in mind that beneficiaries are often the parties raising claims of unsuitability for transactions executed for elderly customers)

RRs are encouraged to retain documentary records that evidence the customer's understanding of the merits and suitability of a transaction, including notes, disclosures, or other records.

Each RR's supervisor is responsible for oversight to ensure the application of these procedures. The supervisor is required to escalate incidents raising concerns to the CCO.

7.3.1 Rollovers to Individual Retirement Accounts

When a plan participant is leaving his employer, he typically has four options (and may engage in a combination of these options):

- Leave the money in this former employer's plan, if permitted
- Roll over the assets to his new employer's plan, if one is available and rollovers are permitted
- Roll over to an IRA
- Cash out the account value

A recommendation that an investor roll over retirement plan assets to an IRA rather than keeping the assets in the previous employer's plan should reflect the consideration of various factors which will vary depending on each investor's individual needs and circumstances. Such factors may include, but are not limited to the following:

- Investment options – Is a broader range of investment options available under IRA than current plan?
- Fees and Expenses – How do IRA fees compare to current plans administrative costs, including consideration of commissions and custodial fees?
- Services – What levels of service are available under each option?

- Penalty-Free Withdrawals – Employees may be able to make penalty-free withdrawals from an employer plan earlier than from an IRA
- Protection from Creditors and Legal Judgments
- Required Minimum Distributions
- Employer Stock – Cashing out of employer stock could have significant tax consequences

As with all investment recommendations, the ICRR must consider the customer's investment profile, including the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose in connection with the recommendation.

7.4 Review of RR Personal Investment Accounts

All trades in personal accounts of Company personnel, where they have a beneficial interest in such account, will be reviewed on a periodic basis for evidence of:

- Substantial or unexplained gains or losses
- Substantial or unexplained deposits or withdrawals
- Illegal participation in trading profits
- Manipulative trading activity
- Trading on Inside Information

In addition, associated persons will be required to attest, annually, that they have disclosed all personal accounts opened at outside broker dealers. *See "FFSI policy on Personal Accounts and Trading"* for further information on personal trades.

7.5 RR Compliance Questionnaire

Each ICRR, registered principal and other associated persons at the discretion of the CCO are required to complete and sign Quarterly Questionnaires containing a series of questions designed to determine whether that person has engaged in conduct which requires additional compliance scrutiny. The Designated Principal will review each Questionnaires for completeness and accuracy. Questionable answers are escalated to the CCO for further consideration and review. Failure to complete the Questionnaire or failure to answer a question honestly is grounds for disciplinary action.

7.6 Review of Communication with the Public and Internal Communications

The term "Communication with the Public" as defined in Rule 2210 as correspondence, retail communications and institutional communications.

"Correspondence" is any written letter or e-mail message by the ICRR that is distributed or made available to 25 or fewer retail investors within any 30 calendar-day period. Correspondence does NOT include items prepared for distribution to institutional clients, either existing or prospective.

Institutional communication" means any written (including electronic) communication that is distributed or made available only to institutional investors but does not include a member's internal communications.

"Retail communication" means any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period.

All incoming and outgoing Correspondence relating to the securities business of the Firm or any of its Registered Representatives must be subject to review on a regular basis by the designated Principal of the Firm, as outlined below. This includes all Correspondence at the branch level as well as the Home Office.

In addition, SEC books and records rules require maintenance of **inter-office** memoranda and communications relating to the Firm's business. The requirements described below regarding the record keeping of incoming, outgoing and e-mail correspondence also apply to internal communications. Reviews of inter-office memoranda and communications will be conducted randomly by the designated Principal and will be evidenced as appropriate.

It is the CCO's responsibility to ensure that any registered principal (or non-registered person to whom such duties are delegated) performing reviews is capable (by background, experience and/or specialized training) of:

- identifying and properly addressing complaints, instructions, funds, securities, and communications that are of a subject matter that require review under FINRA rules and federal securities laws; and
- internal communications to properly identify communications that are of a subject matter that require review under FINRA rules and federal securities laws.

It is noted that while a supervisor or principal may delegate review functions to an unregistered person; the supervisor or principal remains ultimately responsible for the performance of all necessary supervisory reviews.

The CCO must approve the delegation of any review duties to any non-registered principal in advance of such delegation.

Additionally, the CCO must provide:

- education and training of associated persons regarding the firm's procedures governing correspondence
- documentation of such education and training
- surveillance and follow-up to ensure that such procedures are implemented and followed

It is the responsibility of each ICRR to:

- attend Company education sessions on Communication with the Public or otherwise to educate him/herself on these rules and
- bring any Communication with the Public to the attention of Compliance in a timely manner so that it may receive the necessary review/approval.

Regarding all written (including electronic) customer complaints, the Firm requires that each be captured, acknowledged, and responded to. Oral complaints are excluded because they are difficult to capture and assess and may raise competing views as to the substance of the complaint being alleged. Nonetheless, the Firm will strive to provide customers with a form or other format that will allow customers to communicate their complaints in writing.

7.6.1 Incoming Correspondence

All incoming Correspondence will be opened and reviewed immediately to assure that all securities and checks are properly processed and that the designated Principal is notified of any customer complaints or irregularities.

Unregistered persons and ICRRs who have received sufficient training to enable them to identify complaints and checks/securities and are properly supervised are permitted to open and handle incoming correspondence. Any questions or irregularities must be immediately brought to the attention of the Compliance.

Prior to being filed in the respective client file, a copy of all Correspondence or a log containing information relating to the sender, recipient, and content of the correspondence, will be filed in the Incoming Correspondence File. Compliance will periodically review the content of this file or identify materials from the correspondence log for review. This review

will be completed at least monthly, and review will be evidenced by the designated Principal's initials and date being noted on the correspondence and/or log. A sample Correspondence log is included in the *Forms Section* of this Manual.

All mail addressed to the Firm's offices is deemed to be related to the Firm's business, even if marked to the attention of a particular associated person. ***Employees, Registered Representatives and Associated Persons who do not wish their personal mail opened and reviewed should not have it addressed to them at the Firm.***

In accordance with SEC Rule 17a-4(b)(4), originals of all Communications received by the Firm relating to its business as such shall be preserved for not less than three years.

7.6.2 Outgoing Correspondence

Rule 2210 requires that all outgoing Correspondence conform to the content standards in effect for communications with the public. Correspondence must be based on principles of fair dealing and good faith and provide a sound basis for evaluating the facts in regard to any particular security or securities, type of security, industry discussed, or service offered and not omit any material facts. Exaggerated and unwarranted or misleading statements or claims are prohibited. Communications should be clear, balanced and fair considering the person addressed, the detail of the matter communicated and the context of the communication. *See below under Section 11* for applicable content standards.

All outgoing Correspondence (including business cards and letterhead) must:

- prominently disclose the Fortune name
- reflect any relationship between the Firm and any non-member or individual who is also named
- if it includes other names, reflect which products or services are being offered by the Firm

As described in Section 12 for all communications with the public, when statistical information is included in any Correspondence, a file must be maintained containing the source of any statistical table, chart, graph, or other illustration used by the Firm. Use of investment company rankings is described in the *"Mutual Funds" section*.

Rule 2210 requires that correspondence sent to 25 or more existing retail customers within any 30-calendar day period be pre-approved by Compliance if the correspondence includes financial or investment recommendations or promotes the products and services offered by the Firm. The designated Principal will ensure that all such correspondence has been reviewed and that a copy of the correspondence along with a mailing list, if applicable, showing evidence of Principal review will be retained in the Outgoing Correspondence file. The designated Principal shall evidence his/her review by noting the material with his/her initials and the date.

The Firm requires pre-review and approval of all outgoing Correspondence to 25 or more individuals; the designated Principal will evidence his/her approval by initialing copies of this Correspondence. Copies will be maintained in a separate "Outgoing Correspondence File."

Inappropriate language or content not in compliance with applicable standards discovered in this review process will be brought to the attention of the author and subsequent pre-reviews of such person's Correspondence may take place to ensure adherence to Correspondence rules. Any heightened supervision regarding correspondence will be documented and the plan of action will be retained in the individual's registration or personnel file.

All customer Correspondence shall be retained for a period of not fewer than three (3) years after use and shall be readily accessible to examiners.

7.6.3 Letterhead and Business Cards

In all written Correspondence, Company personnel must use pre-approved letterhead and business cards. The designated Principal will maintain a copy of all approved business cards and letterhead either in a separate file, in the Representative's file or in the Advertising/Sales Literature File; such materials should be dated to show effective date and initialed by the Principal to evidence approval.

Stationery items used by Representatives in non-branch offices must include the phone number or address of the home office overseeing such office. The designated Principal must ensure compliance with all applicable regularly standards and with Company guidelines. Use of unapproved stationery may result in disciplinary action.

7.6.4 Regulatory Spot-Checks

Following receipt of a written request by FINRA's Advertising Regulation Department, the designated Principal must provide requested correspondence within the specified time frame. All staff are required to cooperate with all spot-check procedures conducted by FINRA.

7.6.5 Internal Communications

The CCO has the authority and responsibility to decide the scope and nature of reviews of internal communications. For instance, the CCO may determine that the email addresses of the firm's operational personnel are subject to specific reviews, or that correspondence review requirements (in particular mail opening and distribution) are rotated among various available principals.

The CCO is not required to review every internal communication, provided that the reviews performed are adequately designed to achieve compliance.

7.6.6 Electronic Mail

All policies related to the content of customer Correspondence in general apply to e-mail Correspondence. Please refer to "Use of Electronic Media" for additional policies related to the Firm's use of electronic communications, including pre-approval policies on Communications with the Public

The CCO or an employee s/he designates (Email Reviewer) will review a sampling of e-mail transmissions using a third-party surveillance and archiving solution. All incoming and outgoing e-mail messages will be automatically saved via electronic storage software. The Email Reviewer will periodically access the saved messages and review a sampling of them. Evidence of this review will be recorded via the reviewer's initials and date of review or by electronic means.

All business-related e-mail Correspondence will be retained in accordance with the retention guidelines described above.

To meet SEC books and records requirements, the Firm utilizes a third-party vendor to store and back up its e-mail Correspondence records. *See Section 16.8, Preservation of Required Records, for details.*

All outgoing e-mail must include the following: name of the Firm, name of sender, department/branch address, phone number and e-mail address of the sender.

Certain restrictions apply, including the following:

- Securities licensing requirements necessary for public communications apply to electronic communications

- Recommendations or communications that require an accompanying prospectus must be accompanied by such or a link to the issuers website where the prospectus can be reviewed. Extracts or references to terms from an offering should not be duplicated in an e-mail communication (full disclosure of offering terms must be made)
- Any requests to not be contacted should be forwarded to Compliance such that the person may be added to the Do Not Call List
- Business-related communication with customers or prospective customers must not be sent from a non-Company approved electronic equipment

Should the Email Reviewer deem any Correspondence inappropriate or not in compliance with applicable standards, he/she will bring it to the attention of the designated Principal. Any action taken, including notifying, and disciplining the author, will be recorded in that individual's registration or personnel files. Where there is a history of violations, Compliance may conduct an electronic audit to determine content of information being retained and require pre-review of all outgoing emails.

Business-related e-mail communication with the public and/or the Firm's customers from unapproved or undisclosed electronic devices is prohibited.

he Firm allows the use of "text messaging" to clients. All representatives are required to obtain the Cell Trust application for their phone or other electronic devices to text customers regarding securities related matters. The firm receives records of such text messages, and this information shall be reviewed by the Compliance Department. Testing for compliance with the Firm's policies regarding electronic communications will be performed during office inspections and remotely at the discretion of the CCO.

Evidence of review of correspondence and internal communications will include a record, maintained by the reviewer and accessible to the CCO, of what communication was reviewed, the identity of the reviewer, the date of review and the firm's actions taken as a result of any significant regulatory issues identified during the review. When reviews are performed using automated surveillance tools, a separate record does not need to be maintained provided the automated system record includes all required information.

The CCO is responsible for periodically assessing the efficacy and adequacy of automated tools in use for correspondence review.

Reviewers of communications are advised that merely opening a communication is not sufficient review.

7.7 Annual Compliance Meeting

Fortune Financial Services, Inc. shall require all Registered Representatives, registered Principals, and other associatedpersons, either individually or collectively, at least annually, to attend an interview or meeting conducted by the designated Principal(s) at which compliance matters relevant to the Firm and its associated person(s) are discussed. Such interview or meeting can occur in conjunction with the discussion of other matters and may be conducted at a central or regional location or at the associated person's place of business.

If the annual meeting or portions thereof by electronic means, Compliance conferences conducted other than in person, the designated Principal must ensure that the communication means used permits interactive communication. The associated persons who attend such a compliance conference must be able to hear presenters live and, in an interactive environment, ask questions and engage in dialogue with the CCO. The CCO may use supplemental learning and

communications tools such as videotapes or computer programs that include informational or instructional materials from persons who are not physically present.

The designated Principal shall ensure that associated persons scheduled to appear at a particular location in fact arrive at and stay for the entire conference and that a record of attendance is maintained and kept. Documentation regarding the materials covered at the meeting, copies of any supplemental materials used, and the attendance records must be filed in the Firm's Annual Compliance Meeting file and retained for a period of three years.

7.8 Business Continuity

In the event an emergency causes a disruption in the Firm's business, Company personnel must endeavor to quickly recover and continue its operations. Company personnel will follow the procedures outlined in its "Business Continuity Plan" in order to resume normal operations. Personnel may access the Business Continuity Plan by referring to printed documents.

The Business Continuity Plan must identify procedures relating to an emergency or significant business disruption, designed to enable the Firm to meet its existing obligations to customers. The procedures must address the Firm's existing relationships with other broker-dealers and counterparties. The Business Continuity Plan must be updated upon any material change and, at a minimum, must be reviewed annually *(see below).* The Firm, per Rule 4370, must designate two emergency contact persons and must provide this information electronically to FINRA. The Executive Representative will ensure that original contact information has been provided to FINRA, per Rule 4370, and will review and update, if necessary, this contact information quarterly (within 17 business days of the each of each calendar quarter).

The Firm's Business Continuity Plan is maintained under separate cover and has been approved by the designated Principal. The designated Principal is responsible to review, or appoint someone to review, the Plan at least annually in order to assess its continued accuracy. If necessary, changes must be made to update the Plan. The designated Principal must review proposed changes and the final, updated version of the Plan and will maintain a record of his or her approval.

The Firm must disclose to its customers how its Business Continuity Plan addresses the possibility of a future significant business disruption and how it plans to respond to events of varying scope. This disclosure is made in a disclosure statement provided by Representatives to customers upon account opening. The most updated version of the statement is always available on the Firm's website and upon request by customers (a written copy must be mailed when requested). All Company personnel are encouraged to periodically review the Plan to be prepared for unforeseen business disruptions.

8 REGISTERED REPRESENTATIVE CONDUCT

8.1 Outside Business Activities and Private Securities Transactions ("Selling Away")

The Principal designated to approve and review Outside Business Activities and Private Securities Transactions is also required to comply with these procedures. Approval of, and subsequent review of, if required, the designated Principal's Outside Business Activities and Private Securities Transactions are the obligations of the CCO. This designated individual must ensure that the policies described above are enforced and documented and must document and follow up on any violations discovered.

8.1.1 Outside Business Activities

No ICRR may be employed by, nor accept compensation from, any person or firm as a result of any business activity, other than a passive investment (described below), outside the scope of his or her relationship with FFSI, unless he or she has provided prior notice to the Firm on the form designated for such use by the CCO. The ICRR may not engage in the proposed activity unless and until the CCO has rendered her approval.

Working at or as a Registered Investment Advisor or selling insurance products are outside business activities that must be disclosed.

In approving the outside activity, the CCO shall consider, among other factors:

- Whether or not customers of the Firm will be confused as to the involvement of the Firm in the activity
- The ability of the CCO to oversee the activity
- The degree to which the activity presents a conflict of interest

In monitoring outside activities, ICRRs are advised that the CCO may request any and all documents of interest to the CCO/Company, including financial statements, audit reports, shareholder and ownership data, tax returns, and any and all other documents.

Registered persons have a continued obligation to provide notice to the Firm of any new business activities that they are engaged in outside the scope of their broker-dealer relationship and responsibilities, and without prior permission of the designated Principal no Registered Representative may accept any position as officer or director or founder of another firm or corporation, establish any personal holding Company or become a partner of any partnership or party to any joint venture. Form U4 must be amended to disclose any outside relationships not previously reported.

8.1.2 Receipt of Compensation from Outside the Company

The Rules prohibit any person associated with Fortune from accepting any compensation from any person or entity other than the Company, unless approved in accordance with the procedures described for Outside Business Activities and Private Securities Transactions. No compensation may be received in the form of securities of any kind.

8.1.3 Passive Investments

Passive investments are those from which an individual receives income but for which he or she performs no service. Examples would include interest on investments or income from a corporation of which the person is a passive shareholder. Passive investments need not be reported under Rule 3270 however the Firm does request disclosure for more complete supervision.

8.1.4 Private Securities Transactions ("Selling Away")

"Private securities transaction" shall mean any securities transaction outside of Fortune Financial Services. This does not include transactions among immediate family members (as defined in FINRA Rule 5130), for which no associated person receives any selling compensation, and personal transactions in investment company and variable annuity securities, shall be excluded.

"Selling compensation" shall mean any compensation paid directly or indirectly from whatever source in connection with or as a result of the purchase or sale of a security, including, though not limited to, commissions; finder's fees; securities or rights to acquire securities; rights of participation in profits, tax benefits, or dissolution proceeds, as a general partner or otherwise; or expense reimbursements.

Private Securities Transactions include any transactions made for clients as an RIA or IAR.

The term “private” is meant to connote all those securities transactions, including direct participation programs and other financial products, engaged in by the individual outside his or her regular course of activities as an associated person, or other investment transactions which may mislead customers or participants into believing the transactions are sponsored by the Firm.

Rule 3280(b) requires associated persons to provide written notice of their intention to participate in any private securities transaction before commencing such participation. The Rule further requires that the Firm provide written approval or disapproval, depending on its preference, of the associated person’s participation in the transaction if the person proposes to receive compensation as a result of his or her participation; should there be no intended compensation, the Firm shall acknowledge the associated person’s notice and may require adherence to specific conditions in connection with his or her participation in the transaction.

In the event an associated person participates, with the approval of the Firm, in a private securities transaction for compensation, the transaction shall be recorded on the books and records of the Firm and the Firm shall supervise the person’s participation in the transaction as if it were executed on behalf of the Firm.

The Firm requires strict adherence to the following policy:

Under no circumstances is the Representative to purchase or sell a security for, to or from a client without reporting the transaction for recording on the Firm’s books. No Representative may engage in any private securities transaction without the prior express written permission of the Firm. Fortune Financial Services, Inc. will terminate a Representative if instances of “selling away” are discovered and will notify the regulatory authorities. Under no circumstances is any Representative to purchase or sell a security that is not publicly traded to, from or for a client without prior approval by a principal of the Firm.

8.2 Personal Accounts and Trading

All Fortune personnel, whether or not registered, **PRIOR TO INVESTING,** must advise the Firm of all investment accounts (personal securities accounts) in which they, their spouse, dependents living in their household and others under their direct or indirect control have an interest. This disclosure must include any personal investment, including a private offering, a business interest an investment made through a third party, such as an investment adviser, and any and all such investments. Based on a review of the accounts, the CCO will approve or deny the investments.

The requirement for prior disclosure of investments is both initial (at the time of hire) and ongoing for the duration of the RR’s relationship with the Firm. Failure to attain the CCO’s prior approval of outside investments is a serious infraction of the Firm’s rules and will be treated with severity, up to and including termination of the individual and/or he/her immediate supervisor.

8.2.1 Exempt Accounts

The requirements of this Rule shall not apply to transactions in unit investment trusts, municipal fund securities as defined under MSRB Rule D-12, qualified tuition programs pursuant to Section 529 of the Internal Revenue Code and variable contracts or redeemable securities of companies registered under the Investment Company Act, as amended, or to accounts that are limited to transactions in such securities, or to Monthly Investment Plan type accounts, such as an employer sponsored 401k plan.

8.2.2 Duplicate Confirmations/Statements

Upon disclosure of a RR securities account, the CCO will instruct the carrying firm to provide duplicate confirmations and statements or electronic data feeds to the CCO. The CCO has waived this requirement for accounts held directly at the fund or insurance company.

8.2.3 Trading

In transacting business for themselves all Company personnel must observe principles of conduct announced in this Supervisory Procedures Manual and elsewhere by the Firm in order to foster professionalism and integrity in the Firm's business.

8.3 Insider Trading

Employees are prohibited from effecting transactions based on knowledge of material, non-public information.

The Principal designated to approve and review personal accounts and trading is also required to comply with these procedures. Approval of, and subsequent review of, the designated Principal's personal accounts and trading are the obligations of the CCO. This designated individual must ensure that the policies described above are enforced and documented and must document and follow up on any violations discovered.

The Firm does not have a research department or an investment banking department, and its RR's transact business solely in packaged products. Therefore, many of the specific procedures discussed in this section may not be applicable to the Firm. Nonetheless, the Firm believes the general principles in this section to be relevant to the professional conduct of an RR, and therefore, personnel are required to read and understand the following text.

SEC Rule 10b-5 under the Securities Exchange Act of 1934 generally makes it unlawful for any person to use, either directly or indirectly, material inside information that has not been publicly disseminated in connection with the purchase or sale of securities. The Insider Trading Act, passed by Congress in 1988, was promulgated to address the abuses of disclosing non-public information. This legislation listed a number of policies and procedures to be adopted by broker-dealers "reasonably designed to prevent the misuse of material non-public information." These policies and procedures include, among other things, restricted access to files and other sources likely to contain non-public information and provisions for continuing education programs regarding insider trading.

It is the policy of Fortune Financial Services, Inc. that no personnel (employees, Registered Representatives, and others) may trade either personally or on behalf of others or participate directly or indirectly in the trading of any security of any issuer about which the individual possesses material non-public information at or prior to the time such information is publicly disclosed and available in the marketplace.

Further, no personnel may communicate any material non-public information to anyone outside the Firm (including customers, suppliers, family members and others). No such information may be communicated inside the Firm except as specifically authorized by the designated Principal.

Violation of the above policy or conduct that has the appearance of violation although outside the scope of legally prohibited activity can be extremely embarrassing to the Firm and to the person involved. It can cause the Firm to lose an existing or prospective client and cast a pall over the Firm's reputation. Consequently, all incidents will be vigorously and actively investigated and, if appropriate, the Firm will cooperate in the prosecution of any personnel involved in alleged infringements of this policy or its procedures. "Insiders" subject to the disclosure requirements of Section 10(b) of the Securities Exchange Act may include employees, officers, directors and controlling stockholders who are in

possession of undisclosed, material information obtained during their employment. Additionally, third parties such as attorneys, accountants and brokers who receive material, non-public, corporate information from any insider may also be subject to the requirements of Section 10(b). Representatives are required to review and understand recently adopted SEC Regulation FD and modifications to Rule 10(b)-5, as described in the sections to follow.

Material information is defined as a) information which in reasonable and objective contemplation might affect the value of the issuer's publicly traded securities, or b) information which, if known, would clearly affect investment judgment, or which directly bears on the intrinsic value of the issuer's publicly traded securities. In determining whether the information obtained comes within the above definition, and is therefore unusable, the following terms apply:

"Material information" is any information that a reasonable investor might consider important in making an investment decision. Examples of "material information" would be:

- Mergers, acquisitions, tender offers, or restructuring
- Securities offerings or share purchases
- The appointment of an investment banker or signing a letter of intent with an underwriter
- Possible proxy fights
- Asset valuations
- Dividends or earnings changes (or changes in estimates)
- Significant shifts in operating or financial circumstances such as write-offs, cash flow reductions, changes in accounting methods and the like
- Imminent change in credit rating by agency
- Voluntary calls of debt or preferred stock issues
- Major new products, discoveries or services or loss of any of these
- Significant new contracts or loss of business
- Regulatory developments (such as FDA approvals)
- Significant litigation or litigation developments
- Extraordinary management developments
- Forthcoming publications or articles that may affect market prices

"Publicly disseminated" means information that is generally available to the public and about which the public has had a reasonable opportunity to make an investment decision.

"Solicited orders" include all orders for which the inducement to sell or purchase comes from within the Firm.

The most common violations of the "insider trading" rules include purchasing or selling securities based on such information in any account in which one has a direct or indirect beneficial interest and "tipping" such information to anyone or using it as a basis for recommending the purchase or sale of a security (this includes spreading rumors).

Persons who are in possession of any material inside information that has not been disseminated to the public are prohibited from:

- Purchasing or selling securities for their own accounts, accounts of close relatives
- Soliciting customer's orders to either purchase or sell the securities
- Disclosing such information or any conclusions based thereon to anyone

If, after considering these items, any of the Firm's Registered Representatives or other associated persons believes that the information he or she has is material and non-public, he or she should take the following steps:

- Review the matter with the designated Principal
- Do not purchase or sell the securities until all concerns have been addressed
- Do not communicate the information to others until there is no danger of insider trading

The Firm has designated the principals designated above as responsible to monitor trading activities and communications among Company personnel and between personnel and customers to ascertain whether "inside information" has been improperly used. The Compliance department shall maintain records of such monitoring activity.

8.3.1 Disclosure of Non-Public Information

Regulation FD (Fair Disclosure), which addresses selective disclosure, applies to all issuers with securities registered under Section 12 of the Exchange Act, and all issuers required to file reports under Section 15(d) of the Exchange Act, including closed-end investment companies, but not including other investment companies, foreign governments, or foreign private issuers.

The Regulation provides that when an issuer, or person acting on behalf of an issuer, discloses material nonpublic information to certain enumerated persons (in general, securities market professionals and holders of the issuer's securities who may trade based on the information), it must make public disclosure of that information. The Regulation defines "person acting on behalf of an issuer" as

- any senior official of the issuer or
- any other officer, employee, or agent of the issuer who regularly communicates with any of the persons described in Rule 100(b)(1) (*see below*), or with the issuer's security holders.

The timing of the required public disclosure depends on whether the selective disclosure was intentional or non-intentional: for an intentional selective disclosure, the issuer must make public disclosure simultaneously; for a non-intentional disclosure, the issuer must make public disclosure promptly. Rule 101(a) states that a person acts "intentionally" only if the person knows, or is reckless in not knowing, that the information he or she is communicating is both material and nonpublic. Under the Regulation, the required public disclosure may be made by filing or furnishing a Form 8-K, or by another method or combination of methods that is reasonably designed to effect broad, non-exclusionary distribution of the information to the public.

Rule 101(d) defines "promptly" to mean "as soon as reasonably practicable" (but no later than 24 hours) after a senior official of the issuer learns of the disclosure and knows (or is reckless in not knowing) that the information disclosed was both material and non-public. "Senior official" is defined as any executive officer of the issuer, any director of the issuer, any investor relations officer or public relations officer, or any employee possessing equivalent functions. The Rule does not change the SEC version of "material nonpublic information." Information continues to be "material" if there is a substantial likelihood that a reasonable shareholder would consider it important in making an investment decision. To fulfill the materiality requirement, there must be a substantial likelihood that the reasonable investor would have viewed a fact as having significantly altered the total mix of information made available. Information is nonpublic if it has not been disseminated in a manner making it available to investors generally. Rule 101(a) states that a person acts "intentionally" only if the person knows, or is reckless in not knowing, that the information he or she is communicating is both material and nonpublic.

New Rule 100(b)(1) enumerates four categories of persons to whom selective disclosure may not be made absent a specified exclusion. The first three are securities market professionals, including:

- broker-dealers and their associated persons,
- investment advisers, certain institutional investment managers and their associated persons, and
- investment companies, hedge funds, and affiliated persons.

These categories include sell-side analysts, many buy-side analysts, large institutional investment managers, and other market professionals who may be likely to trade based on selectively disclosed information.

The fourth category of person included in Rule 100(b)(1) is any holder of the issuer's securities, when it is reasonably foreseeable that such person would purchase or sell securities based on the information.

Fortune Financial Services, Inc. urges all personnel, including its Registered Representatives, to be alert to the source of information being obtained, in view of the foregoing SEC rules.

Rule 100(b)(2) sets out four exclusions from the above prohibition:

- communications made to a person who owes the issuer a duty of trust or confidence -- i.e., a "temporary insider" -- such as an attorney, investment banker, or accountant;
- communications made to any person who expressly agrees to maintain the information in confidence;
- disclosures to an entity whose primary business is the issuance of credit ratings, provided the information is disclosed solely for developing a credit rating and the entity's ratings are publicly available; and
- communications made in connection with most offerings of securities registered under the Securities Act of 1933.

In addition, Rule 103 of the Regulation as adopted states that an issuer's failure to comply with the Regulation will not affect whether the issuer is considered current or, where applicable, timely in its Exchange Act reports for purposes of Form S-8, short-form registration on Form S-2 or S-3, and Rule 144.

Regarding liability, Rule 102 expressly provides that no failure to make a public disclosure required solely by Regulation FD shall be deemed to be a violation of Rule 10b-5. This provision makes clear that Regulation FD does not create a new duty for purposes of Rule 10b-5 liability. Accordingly, private plaintiffs cannot rely on an issuer's violation of Regulation FD as a basis for a private action alleging Rule 10b-5 violations. Rule 102 is designed to exclude Rule 10b-5 liability for cases that would be based "solely" on a failure to make a public disclosure required by Regulation FD. As such, it does not affect any existing grounds for liability under Rule 10b-5. Thus, for example, liability for "tipping" and insider trading under Rule 10b-5 may still exist if a selective disclosure is made in circumstances that meet the Dirks "personal benefit" test. In addition, an issuer's failure to make a public disclosure still may give rise to liability under a "duty to correct" or "duty to update" theory in certain circumstances. Additionally, an issuer's contacts with analysts may lead to liability under the "entanglement" or "adoption" theories. Also, if an issuer's report or public disclosure made under Regulation FD contained false or misleading information, or omitted material information, Rule 102 would not provide protection from Rule 10b-5 liability. Finally, if an issuer failed to comply with Regulation FD, it would be subject to an SEC enforcement action alleging violations of Section 13(a) or 15(d) of the Exchange Act (or, in the case of a closed-end investment company, Section 30 of the Investment Company Act) and Regulation FD.

The SEC offers the following model, which employs a combination of methods of disclosure, for making a planned disclosure of material information, such as a scheduled earnings release:

- First, issue a press release, distributed through regular channels, containing the information

- Second, provide adequate notice, by a press release and/or website posting, of a scheduled conference call to discuss the announced results, giving investors both the time and date of the conference call, and instructions on how to access the call
- Third, hold the conference call in an open manner, permitting investors to listen in either by telephonic means or through Internet webcasting

By following these steps, an issuer can use the press release to provide the initial broad distribution of the information, and then discuss its release with analysts in the subsequent conference call, without fear of engaging in a selective disclosure of material information, should it disclose additional material details related to the original disclosure. The SEC stated that an issuer's posting of new information on its own website would not by itself be considered a sufficient method of public disclosure. As technology evolves and as more investors have access to and use of the Internet, however, the SEC expressed the belief that some issuers, whose websites are widely followed by the investment community, could use such a method.

8.4 Commission/Fee Splitting

FINRA regulations and the Firm’s policies strictly prohibit any Registered Representative from sharing fees or commissions with any person or entity outside the Firm’s approved and administered relationships. This prohibition is meant to preclude sharing commissions or fees with clients, persons who refer business, accountants, attorneys, family members, investment advisers, or others. Any Registered Representative engaging in unauthorized sharing is subject to severe disciplinary action by the Firm up to and including termination, as well as potential fines and penalties imposed by regulatory authorities.

Fees and commissions may be shared with other Registered Representatives of the Firm, provided the arrangement is pre-approved by the CCO and administered by the Firm, is properly reflected on the Firm’s books, and does not unfairly impact the client.

Registered Representatives may not forward or share securities commissions with any individual who is not appropriately registered and licensed with the member firm that affected the securities purchase. In the case of a variable life insurance policy or variable annuity contract, the commissions earned can only be shared with those who are also licensed by the issuing insurance Company in the appropriate state.

8.5 Receipt of Non-Cash Compensation, Sales Incentives, Gifts and Gratuities

Non-cash compensation, reimbursements, sales incentives, gifts, and gratuity items (including travel bonuses, prizes, andawards offered by any sponsor or program) **CANNOT BE PAID DIRECTLY** to any associated person of Fortune Financial Services, Inc. The Firm, itself, however, is permitted to provide non-cash compensation to its Representatives provided no sponsor, affiliate of a sponsor, or program, including an affiliate, directly or indirectly participates or contributes to providing such non-cash compensation.

All compensation to be received by an associated person which is related to his or her securities activities or association with the Firm must be paid directly to Fortune Financial Services, Inc. and the Firm shall control distribution of compensation to the associated person and will record the receipt and distribution in its books and records.

Cash compensation must also be reflected in the prospectus or other applicable offering documents. These rules apply to officers and directors and principals of the Firm as well as Registered Representatives. The designated Principal will review all prospectuses and offering documents for proper disclosure and will monitor all compensation arrangements in order to assure compliance with the rules described herein.

8.5.1 FINRA Rules on Non-Cash Compensation

Non-cash compensation rules are included in FINRA Rules 5110 (Corporate Financing Rule), 2310 (Direct Participation Program Rule), 2320 (Variable Contract Rule). Together, these rules apply to sales of variable annuities, mutual funds, DPPs, public offerings of debt and equity securities, and real estate investment trust (REIT) programs. Through application of these rules, FINRA and SEC attempt to eliminate the possibility of conflicts of interest, compromised suitability determinations, and other inappropriate sales practices.

Non-Cash Compensation Defined: This term is identical in applicability in the Rules referenced above and encompasses any form of compensation received by a member in connection with the sale and distribution of securities that is not cash compensation, including, but not limited to, merchandise, gifts and prizes, travel expenses, meals, lodging and securities. Certain employee benefits such as company stock options, bonus awards and other compensation arrangements are not covered.

Receipt of Compensation from Outside the Firm: The Rules prohibit any person associated with the Firm from accepting any compensation from any person or entity other than the Firm, unless approved in accordance with the procedures described in Section 6.1, above, on Outside Business Activities and Private Securities Transactions. No compensation may be received in the form of securities of any kind.

8.5.2 Prospectus Disclosure of Cash Compensation

Fortune Financial Services, Inc. shall not accept cash compensation from offerors unless such compensation is disclosed in a prospectus. In the case where special cash compensation arrangements are made available by an offeror to a member, which arrangements are not made available on the same terms to all members that distribute the securities, the disclosure must include the name of the recipient member and the details of the special arrangements. There is an exception from disclosure for compensation arrangements between: (1) principal underwriters of the same security; and (2) the principal underwriter of a security and the sponsor of a unit investment trust which utilizes such security as its underlying investment. By their terms, these provisions describe arrangements that would not trigger the proposed record keeping requirements. This disclosure may be placed in the Statement of Additional Information (SAI) incorporated by reference in the prospectus and made available to customers on request.

8.5.3 Gifts and Gratuities

Rule 3220 and the Firm's policies permit RRs to give or receive gifts that do not exceed an aggregate annual amount of $100 per person per year. (Personal gifts such as wedding, birthday, anniversary, or gifts related to other special occasions and de minimus or promotional items with a nominal value are exempted from the Rule.) Items that are valued at or near $100, even if promotional in nature, would not be considered nominal and would need to be included in the aggregate annual value of gifts.

The RR is required to provide disclosure of all gifts given or received to Compliance. Evidence review, and approval shall be recorded on a log, which will contain the following and will be maintained in the Company's Gifts and Gratuities file:

- Name of recipient
- Name of presenter
- Date of the gift
- Value of the gift
- If the gift is business related or personal
- Aggregate value of gift to the recipient

In determining whether a gift is business or personal related, consider the pre-existing nature of the relationship between the presenter and recipient and who has paid for the gift. Compliance will make the final determination as to whether a gift is personal or business.

The value of a gift presented to multiple recipients must be pro-rated among the recipients and a record must be kept as to this pro-ration. For example, a gift basket valued at $250 delivered to an office of 3 individuals would be allowed since the pro-rata value is less than $100.

8.5.4 Business-Related Entertainment Expenses

The Company generally considers expenses incurred in conjunction with business related meetings and events where an RR is present to be entertainment. FINRA rules do not generally limit ordinary and usual business entertainment provided by a member or its associated persons to the member's clients and their guests, provided the RR is in attendance for the duration of the meeting or event and the per person cost is less than $100. Notwithstanding this, the Company's CCO reserves the right to limit or disapprove any business entertainment based on reasonableness or otherwise, at her discretion. RRs should consult Compliance if they have any questions.

8.5.5 Non-Cash Compensation, Sales Incentives, Gifts & Gratuities from Product Vendors

Non-cash compensation, re-imbursements, marketing support, sales incentives, gifts, and gratuity items (including travel bonuses, prizes, and awards offered by any sponsor or program) **CANNOT BE PAID DIRECTLY** to any associated person of Fortune Financial Services, Inc. The Firm, itself, however, is permitted to provide non-cash compensation to its Representatives provided no sponsor, affiliate of a sponsor, or program, including an affiliate, directly or indirectly participates or contributes to providing such non-cash compensation.

All compensation to be received by an associated person which is related to his or her securities activities or association with the Company must be paid directly to Fortune Financial Services, Inc. and the Company shall control distribution of compensation to the associated person and will record the receipt and distribution in its books and records.

Cash compensation must also be reflected in the prospectus or other applicable offering documents. These rules apply to officers and directors and principals of the Company as well as Registered Representatives

8.5.6 Product Sponsored Training and Education

It is important that associated persons receive education opportunities, updates on any portfolio changes or structural changes to current products and explanations of new products. Should associated persons of Fortune be invited to attend training or education meetings held by a product sponsor such as a mutual fund or annuity company such invitations must be submitted to Compliance for **PRIOR** review and approval.

Any related reimbursement or payment of expenses by the sponsor or issuer must be made directly to the Company unless Compliance approves other arrangements. If approved, expenses or reimbursement paid directly to, or on behalf of, the associated person by the sponsor or issuer must be reported to Fortune by the payer and recorded in the Firm's books and records.

Records relating to the review and approval of training or education meetings shall be maintained in the associated person's file or in a separate compensation file and must include the following:

- The location of the meeting. FINRA has stated that the location must be appropriate to its purpose: For example, appropriate purpose is demonstrated where the location is the office of the offeror or the company, or a facility located in the vicinity of such office. If the meeting will accommodate attendees from a number of offices in a region of the country, the meeting location may be in a regional location.

- The type and amount of expenses to be paid or reimbursed. FINRA has made it clear that an offeror is not permitted to pay for certain expenses in connection with a training and education meeting, including, for example, golf outings, cruises, tours, and other entertainment.
- The purpose of the meeting and criteria for the invitation. FINRA has made it clear that attendance should not be based on the achievement of a sales target or other incentives. Attendance may, however, be permitted to recognize past performance or encourage future performance. A Company Principal with supervisory authority over the associated person shall personally approve such attendance in advance and the record of such approval shall be maintained with the associated person's records at the Company. The payment or reimbursement by an offeror must not be applied to the expenses of guests of the associated person.
- Any restrictions or conditions the Company has placed on the associated persons relating to his or her attendance at the meeting.
- The date of the meeting.
- The initials or signature of the reviewing Principal as evidence of his or her approval.

8.6 Improper Conduct

The Firm regards the following practices as improper and will be met with appropriate disciplinary action:

- Accepting cash from a client
- Accepting orders or checks from a third party for a customer's account or opening an account from a third party
- Acting as a trustee on behalf of any client or prospective client without the express permission of the CCO
- Churning (which refers to executing trades in a client's account for the primary purpose of generating commissions)
- Concealing material adverse information about a proposed investment
- Engaging in "trade shredding" whereby large customer orders for securities (or multiple orders which might be otherwise suitable for aggregation to reduce transaction costs) are split into multiple smaller order for the primary purpose of maximizing payments or rebates to the firm or its Registered Representatives
- Engaging in outside business activities or private securities transactions without disclosure to Fortune
- Entering into a relationship with a financial institution (such as a wholesaler for a fund or insurance Company) whereby advertising, trips and other benefits are paid for without full discussion and clearance by the Firm
- Establishing fictitious accounts
- Executing transactions which are excessive, unauthorized and/or inappropriate
- Failing to report any disclosure event, including a financial disclosure such as a lien, judgment, bankruptcy, orrelated compromise with creditors
- Giving specific tax or legal advice to customers, unless qualified and approved to do so;
- Guaranteeing clients, a profit, or a return on an investment
- Opening a securities or commodities account at another firm without prior notification and/or approval
- Participating in public appearances, including but not limited to seminars, radio programs, web videos/podcasts or interviews, without prior supervisory approval
- Preparing written reports or recommendations on a security for general dissemination without prior supervisory review and approval
- Presenting the merits of any proposed investment in an exaggerated, hyperbolic fashion with no balanced discussion of risk
- Providing excessive gifts or gratuities to a customer
- Providing inside information to clients, friends, family, or others or personally acting on inside information

- Recommending the purchase of securities of a character or amount which are inconsistent with the customer's stated objectives or financial ability
- Reproducing and giving to clients or others material intended for internal or broker/dealer use only
- Selling, or causing to be sold, a new issue of equity securities ("IPO") to any account in which a restricted person has a beneficial interest; purchasing an IPO security in any account in which the Firm or person associated with it has a beneficial interest; and continuing to hold new issues acquired by the Firm as an underwriter, selling group member, or otherwise
- Sharing directly or indirectly in the profits or losses of any account without customer authorization and Company approval
- Splitting with or rebating, directly or indirectly, any commission or fee with a person not licensed with the Firm, unless approved by the Firm
- Unauthorized use or borrowings of customer funds or securities

8.7 Supervision of Product Replacement Recommendations after an ICRR Changes Firms

Registered representatives with established customer bases may, from time to time, change their association with member firms. In these situations, the representative will typically attempt to transfer the customer's assets, including mutual funds and variable products directly to the new firm. Often, these products are held directly with the issuer or may be a proprietary product of the representative's prior employing firm. Therefore, it is not uncommon that the product sponsor/distributor may not permit these assets to be transferred into the customer's account at the new firm.

In these situations, the representative may not sell and in some cases even service the investment or receive trail compensation from the product sponsor/distributor. This creates a potential conflict of interest whereby the representative may consider liquidating and replacing such investments with similar investments available through the new firm. To ensure that any replacement recommendations of the new representative are made only after a full determination has been made that the transaction(s) are in the best interests of the client and are suitable, the firm employs the following procedures:

- When conducting due diligence concerning a prospective new registered representative, the CCO will seek to learn the nature of the representative's business and the extent to which he or she offers investment products for which the firm would need a dealer or servicing agreement for the representative to sell and provide service. The CCO will then determine whether to seek such agreements.
- If the firm determines that it is unable or unwilling to service a customer's mutual fund or variable product, it will instruct the registered representative to advise the customer of this fact, including any options the customer may have to continue to hold the investment at the customer's prior firm, before recommending that the customer liquidate or surrender the investment.
- Any recommendation to liquidate, replace or surrender a mutual fund or variable product must be suitable for the customer based upon the customer's financial needs and investment objectives.
    - Recommendations should not be a function of the desire of the firm or its new representative to obtain compensation that it would not otherwise receive were the customer to retain the previously sold investment.

For a reasonable period following the association of a new representative, the CCO or his designee may review replacements recommended by the associated person with special focus paid to any recommendations to liquidate or surrender mutual funds or variable products that may be inconsistent with the customer's investment needs and objectives or that have not been preceded by appropriate disclosure to the customer.

The Principals designated to review mutual fund and variable products shall review any liquidations, exchanges or switches as outlined in later sections of this Manual and shall evidence his/her review and approval by affixing his/her signature to relevant documentation, including suitability information, switch letters and 1035 exchange requests, to be maintained in the client file.

9 CUSTOMER RELATIONS – KNOW YOUR CUSTOMER

The Firm intends to comply with all applicable requirements under Rule 2090 of FINRA Rules, and in doing so, shall observe high standards of commercial honor and just and equitable principles of trade. Supervision of these principles shall be the responsibility of the Principals named in the table above and shall be in accordance with Rule 3110 of the Rules.

Particular attention and supervision is given at all times to transactions involving more senior customers of the firm. Supervisors will ensure that each ICRR is aware of the heightened suitability concerns with respect to senior investors, including those set forth in FINRA's Notice 07-43.

The basic rule of broker-customer relationships is "know your customer." A detailed knowledge of the customer's assets, income, investment objectives and risk tolerance is not only in compliance with FINRA and other regulations but is good business as it leads to confidence in serving the customer's needs.

The surest indication of failure to follow the rules in customer relationships is a pattern of sales or other transactions obviously designed to reward the Registered Representative rather than meet the customer's needs.
While such conduct may not immediately result in an overt violation of FINRA or other rules, its presence will prompt Fortune to seriously question the Representative's capability to function in a responsible manner; continuing patterns of self-benefiting activity will be grounds for a request to leave.

9.1 Suitability in General

In recommending a purchase, sale or exchange of any security to a customer or in accepting a transaction from a customer, the Firm and each Registered Representative should have reasonable grounds for believing that the transaction is suitable for such customer on the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs. Prior to the execution of any transaction the Firm and Registered Representative(s) involved shall make reasonable efforts to obtain information concerning:

- the customer's financial status
- the customer's tax status
- investment objective
- such other information used or considered to be reasonable in making recommendations to the customer

The ICRR should be able to demonstrate to a supervisor:

- whether the transaction was solicited or unsolicited or if a recommendation was made
- the information used in determining the customer's suitability
- the rationale for the selection of the particular security (matching customer suitability data with security information) in the case of recommendations or solicited transaction
- research on the particular security recommended or solicited
- that the customer received and evaluated the recommendation
- that the customer had 'full disclosure" of all material facts about the investment
- that the customer had full disclosure about all mark-ups, markdowns, fees, and commissions

- if "switch" is involved, that the customer had full disclosure of the NET costs over time as well as the benefits of making the switch
- that the customer approved and authorized the investment or investments

RRs should consider the customer's source of funds. ICRR's should be aware that liquefying home equity to purchase securities may not be suitable for most investors. RR's must consider not only whether the investments are suitable, but also whether the strategy of investing liquefied home equity in securities is suitable. RR's must perform a suitability analysis in this situation in order to determine if investment of liquefied home equity is prudent. *See the Section entitled, "Investments in Liquefied Home Equity"* for guidance on such suitability analysis and required disclosures to customers.

Another set of "suitability" guidelines apply to "Institutional Customers" defined in IM 2310-3 as "any entity other than a natural person". Where an Institutional Customer is involved a Principal of the Firm and the Registered Representative(s) must make a determination, based on the information reasonably available to them:

- that the customer has the capability to evaluate investment risk independently
- that the customer (or an agent to which the decision making has been delegated) is actually exercising independent judgment in evaluating the investment

These determinations are to be made under the guidelines on a "case by case" basis Compliance.

The fact that a transaction is "unsolicited" may diminish, but never eliminates, a "suitability" inquiry. A Registered Representative can be just as liable for taking an unsolicited order for an unsuitable investment from a customer whom he or she knows to have flawed judgment as he or she would be for recommending the order to a sophisticated customer.

The designated Principal will review the suitability for each transaction and will evidence his/her review and approval by initialing and dating the order ticket or other applicable transaction documents.

9.2 Portfolio Suitability

In addition to evaluating the "suitability" of a particular investment, the Representative must be prepared to show that the investment was suitable in the context of the customer's investment portfolio. For example, if an investor has a significant percentage of his or her portfolio invested in a particular asset class, investing another 10% in the same asset class may be unsuitable even though in the account context, the investment would seem to be relatively minor.

9.3 Fiduciary Duty

Under some circumstances a Registered Representative may have a "fiduciary duty" to the client. This is a higher-than-normal standard of conduct which says that the ICRR is responsible for watching over his or her client's account in much the same way as he or she would watch over his or her own investments.

The concept of broker "fiduciary duty" stems from the so-called "shingle theory" under which a Registered Representative can acquire additional responsibility/liability as a result of his or her conduct toward the client. In particular, fiduciary liability arises from a course of dealing in which the Representative "hangs out a shingle" as a financial advisor or counselor and purports to provide management or planning or other services to the client that go beyond the normal services of a Registered Representative in recommending, buying, and selling securities.

It is for these reasons that Registered Representatives must be particularly careful with clients who become dependent on them for financial advice, trading recommendations and the like. Under these circumstances the duties of the Representative go beyond a "suitability" determination and extend to overseeing the health and well-being of the client's account.

Company procedures cannot identify each and every one of these "fiduciary" relationships and it is up to the Representative to conduct himself or herself in a manner appropriate to the client's needs. If in any doubt, Registered Representatives should consult Compliance or the CCO as to how to act. In some cases, it may be desirable to correspond with the client clarifying the obligations of the Representative.

9.4 Documentation and Follow-Up

Documentation is important to protect both the customer, Fortune, and the Registered Representative. Keeping records of conversations and discussions about investments and strategies can also assist the designated Principal during his/her review of transactions. The Designated Principal as part of his/her oversight of Representative's activities is responsible for taking steps to ensure that Representatives are diligent in documenting client files.

9.5 Address Changes and Mail Holds

ICRRs are required to bring customer address changes to the attention of the designated Principal immediately upon their knowledge and/or receipt of a customer's instructions. It is generally unacceptable for a customer to change an address to a PO Box or other location not indicative of the customers' true street address, and address changes of this nature are likely to be rejected by the Home Office. RRs shall serve as the first line of defense in this regard and are required to advise Compliance if there is any doubt or concern regarding a customer's request to change the address of record on an account.

Upon receipt of customer instruction, under the oversight of the CCO, home office personnel are responsible for updating records of change of customer address into the Firm database. Upon an update to customer address home office personnel are also required to send a letter verifying the address change to the customer at both the former and the new address within 30 days of knowledge at the Home Office that the address has been changed.

At the discretion of the CCO, Fortune may hold customer mail temporarily if it receives written instructions from a customer who will be traveling or on vacation and away from his or her usual address. ICRRs receiving any such request must advise the customer to submit the request in writing. Upon receipt of a written request, ICRRs are required to notify the CCO, providing a copy of the written request. If the CCO approves the mail hold, Fortune may hold mail for up to two months (or up to three months if the customer is abroad). During such time as the Firm is observing a mail hold, it must retain adequate information to contact the customer if necessary. The customer contact information must be retained at the Home Office under the oversight of the CCO.

Compliance with this policy will be tested during branch inspections, customary reviews of incoming and outgoing correspondence, and during routine home office inspections.

9.6 Changes in Investment Objective

ICRRs are required to bring changes in customer investment objective(s) to the attention of a designated Principal by submitting a completed Customer Account Notification or Client Information Form when a RR is informed by a customer of such a change.

The CCO and supervisors will perform other reviews to detect opportunities to update customer objectives, including reviews of correspondence, commission reports (which might reveal new investment activity), the disclosure forms submitted by RRs and other reviews.

Upon notification of a customer change in investment objective, under the instruction of the CCO, the Firm will send the customer written notice to validate the change, providing the customer with an opportunity to amend, correct or change this information if necessary.

Fortune will retain copies of the forms, along with copies of letters sent to customers verifying any investment changes in the respective customer's file for a period of not less than six (6) years, with the first two years in an easily accessible place.

9.7 Transmittal of Customer Funds or Securities

Fortune Financial does not custody any client funds or securities. All funds are held directly at the investment or insurance company. All fund requests are processed and disbursed by the investment or insurance company. Fortune ICRRs are only responsible for relaying these requests to the investment or insurance company.

Prior to facilitating the transmittal of customer funds or securities to the customer at the address of record, the Firm requires customer confirmation, notification or follow-up that can be documented. Acceptable forms of confirmation include verbal contact with the customer verifying the instructions PRIOR to transmittal or other forms of validation acceptable to the CCO.

Any request by a customer to transmit funds or securities to third party accounts, MUST BE VERIFIED by verbal contact with the customer prior to transmittal.

9.8 Customer Securities or Funds; Loans/Guarantees

Fortune Financial does not custody any client funds or securities. All funds are held directly at the investment or insurance company. Fortune does not loan securities or extend margin credits.

Neither Fortune nor any Registered Representative is permitted to guarantee a customer against loss in any securities account of such customer or in any securities transaction affected by the Firm with or for such customer.

Rule 2150 prohibits improper use of a customer's securities or funds, and, in general, requires adherence to the provisions of SEC Rule 15c3-3. Neither ICRRs nor the Firm must lend securities carried for the account of a customer; all customers' fully paid or excess margin securities must be properly segregated. This does not, of course, prevent the Firm from extending margin credit under proper circumstances, however at the present time the Firm does not have margin accounts.

Rule IM-2330 includes requirements related to segregation of customer funds and securities and should be reviewed and understood by associated persons of the Firm if the Firm holds customer securities. The Firm will not be holding customer funds and securities and therefore qualifies for the exemptive provisions of the Rule.

Rule 3240 describes requirements related to loans between customers and associated persons. The Firm permits its registered persons to lend money to, or borrow money from, its customers, only under any of the following conditions:

- The customer is a member of such person's immediate family (including parents, grandparents, mother-in-law or father-in-law, husband or wife, brother or sister, brother-in-law or sister-in-law, son-in law or daughter-in-law, children, grandchildren, cousin, aunt or uncle, or niece or nephew, and any other person whom the registered person supports, directly or indirectly, to a material extent)

- The customer is a financial institution regularly engaged in the business of providing credit, financing, or loans, or other entity or person that regularly arranges or extends credit in the ordinary course of business
- The lending arrangement is based on a business relationship outside of the Firm/customer relationship

Any associated person wishing to enter into a lending arrangement with a customer of the Firm must submit a written request for approval to the CCO. Permission, if granted by the CCO, must also be in writing. The CCO will retain these written records with either the customer's or associated person's respective records, or both. Periodic reviews of customer accounts should include a review of any lending arrangements in order to detect abuses, if any, committed by registered persons. Perceived abuses must be investigated, recorded, and be met with disciplinary action, if warranted.

9.9 Accounts for Senior Investors

General Requirements - When opening and handling accounts for senior investors, there are certain considerations in addition to usual account handling procedures. There is no benchmark for what constitutes a "senior" or "older" investor, but generally these are individuals who are approaching or have achieved retirement.

9.9.1 Opening Accounts for Senior Investors

When opening accounts, the following should be considered when serving senior investors:

- Encourage customers to identify a 3rd-party emergency contact and obtain permission to contact that person in the event there is an issue or event that requires clarification (such as the customer suffers diminished mental capacity in the future)
- Indicate "retired" on the new account form to assist in evaluating the investor's status as someone potentially withdrawing from investments vs. accumulating assets
- Obtain "lifestyle" information such as when the investor plans to retire, if not already retired; how much money will be needed after retirement; whether there are prospects for future employment; whether a dependent is supported by the investor; other expenses including healthcare expenses anticipated by the investor; the existence of a will and financial power of attorney
- Invite the customer to bring a valued family member or friend to the appointment and have everyone in attendance sign and date as proof of their attendance. This would be considered Best Practice as witnesses to the sales presentation can vouch for the presentation being fair and balanced, and the outcome of the sale being in the "best interest of the customer."

Accounts must ***NOT*** be opened for a senior investor if there is evidence of financial abuse or diminished capacity. In addition, trade orders should not be accepted on the account.

9.9.2 Diminished Mental Capacity

A difficult issue is a customer who appears to be suffering from diminished mental capacity. If a customer's behavior suggests reduced capacity, it is important to take steps to protect the customer, the RR, and the Firm. Relatives or estate beneficiaries may file a complaint or lawsuit if they believe the customer was unable to understand what was occurring in his or her account.

There are a number of steps that may be taken to address the issue:

- Have a conversation with the customer with the branch manager or other supervisor present to assist in making a determination
- Raise the issue with family members and determine if the customer has given power of attorney to another person
- Document meetings, conversations, and other exchanges with relatives about the situation
- Document communications with the customer about investments

- As a final alternative, decide not to continue doing business with the customer

Contact Compliance with questions about a proper course of action.

9.9.3 Potential Indication of Elder Financial Exploitation

ICRRs may become aware of persons or entities perpetrating illicit activity against the elderly through monitoring transaction activity that is not consistent with expected behavior. Frequent uncharacteristic large withdrawals from the elderly person's account would warrant additional attention and investigation. Requests for substantive changes to the account, like an address change to an address that is not the customer's address, may also indicate suspicious activity.

Any such changes should **not** be made to the account by the Representative without the Representative documenting his interactions with the customer as to why these changes are being requested. Further the Representative must be satisfied that the customer understands the changes, and that the changes are in the customer's best interest.

In addition, ICRRs may become aware of suspicious behavior through their direct interactions with elderly customers who are being financially exploited. The following may be indicators of some level of elder financial abuse:

- A caregiver or other individual shows excessive interest in the elder's finances or assets, does not allow the elder to speak for himself, or is reluctant to leave the elder's side during conversations
- The elder shows an unusual degree of fear or submissiveness toward a caregiver, or expresses a fear of eviction or nursing home placement if money is not given to a caretaker
- The financial institution is unable to speak directly with the elder, despite repeated attempts to contact him/her
- A new caretaker, relative, or friend suddenly begins conducting financial transactions on behalf of the elder without proper documentation
- The customer moves away from existing relationships and toward new associations with other "friends" or strangers
- The elderly individual's financial management changes suddenly, such as through a change of power of attorney to a different family member or a new individual
- The elderly customer lacks knowledge about his or her financial status, or shows a sudden reluctance to discuss financial matters

9.9.4 Escalating Issues Involving Senior Investors

When dealing with senior investors, there may be changes or events that require escalation of an issue to Compliance. Following are some issues that may require escalation for handling.

- Suspected elder abuse including financial abuse (contacting appropriate state or other authorities may be necessary; confer with Compliance regarding such referrals)
- Suspected diminished capacity

Any questions regarding dealing with senior investors should be referred to Compliance.

Having Compliance make direct contact with the investor may be appropriate.

9.9.5 Advertising - Targeting Seniors

It is important to remember that advertising that targets seniors must be balanced and may only include products or services suitable for senior investors. All advertising and sales literature must be approved by Compliance prior to publication or distribution.

9.9.6 Incompetent Persons

Accounts for incompetent persons may only be opened with the appropriate authority form a court-appointed guardian. If an RR becomes aware that a customer has become incompetent, the RR should contact Compliance for further guidance.

If a customer becomes incompetent while a third-party trading authorization is in effect for his or her account, the authority generally is considered invalid and requires a court order for reinstatement. “Durable” powers of attorney, recognized by some states, remain in effect after a person is declared incompetent. Questions should be referred to Compliance.

9.10 Discretionary Accounts

A discretionary account is an account in which a person other than the named account holder has the ability to execute transactions within the account. This power may be granted because of a Power of Attorney, trust agreements, advisory or management agreement or other documents. Fortune Financial Services, Inc. does not permit the use of discretion in any commission-based account- mutual funds and/or annuities.

10 CUSTOMER COMPLAINTS / REGULATORY AND ATTORNEY CONTACTS

10.1 Customer Complaints

Customer Complaints include any verbal or written statement from a customer or a customer's representative, which alleges the mishandling of an account or transaction (often, an operational complaint) or improper conduct on behalf of a RR or other broker-dealer associated person (often, a sales practices complaint).

A RR is expressly prohibited from any contact with the complainant and or a representative of the complainant in any fashion, but rather must notify the Compliance immediately (same day). From that point, while the RR may be contacted for more information, details, and supporting documentation, the CCO will manage the resolution of the matter. This practice preserves the full scope of remedies available to the broker-dealer, including errors and omissions insurance and other bonding, and must be observed under all circumstances.

The RR must keep the CCO continuously apprised of any changes and developments regarding customer complaints involving him/herself or any subordinate RR so that FINRA reporting requirements can be met.

10.1.1 Notice to Customers (Complaints)

FFSI includes the contact information for its home office in emails (in the tagline), and in communications to clients.

10.1.2 Operational Complaints

Operational complaints must be reported to the Supervisor in all instances, but often may be resolved through internal office operational channels. Examples of operational complaints include, but are not limited to:

- Dividends not received
- Deposits, positions not recorded on account statement
- Certificates not received
- Forms, or other documentation not received

10.1.3 Sales Practices Complaints

Sales practices complaints involve alleged improper conduct of the RR, and can lead to litigation, arbitration and may require amendments to a RR's Form U4. Due to the potentially serious nature of sales practices complaints, any written or verbal sales practices complaint must be immediately reported to Compliance. Verbal complaints delivered by an

attorney or regulator should be immediately referred to the CCO.

- Unsuitability of an investment
- Unauthorized trading
- Misrepresentation, or omission of material fact
- Churning, over-activity, or switching
- Failure to receive prospectus or to provide full disclosure

10.1.4 Reporting and Recording Sales Practices Complaints

In certain instances, depending upon the nature of the complaint and especially on the amount of damages sought, an amendment disclosing the complaint must be made to the RR's Form U4. Both the Firm and the ICRR are under a regulatory requirement to file U4 amendments within 30 days of the receipt of the underlying complaint. The firm and the individual RR face possible sanction for failure to comply with this requirement. The clock begins running when the RR receives the complaint.

10.1.4.1 Reporting Requirements

Within 30 calendar days of learning of the existence of any of the following, the CCO shall report to FINRA, any of the following:

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

of any claim for damages by a customer, broker or dealer that relates to the provision of financial services or relates to a financial transaction, and such civil litigation, arbitration or claim for damages has been disposed of by judgment, award or settlement for an amount exceeding $15,000. However, when the firm is the defendant or respondent or is the subject of any claim for damages by a customer, broker or dealer, then the reporting to FINRA shall be required only when such judgment, award or settlement is for an amount exceeding $25,000
    - is, or is involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities with any person who is, subject to a "statutory disqualification" as that term is defined in the Exchange Act
    - The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification
- The CCO shall report to FINRA within 30 calendar days when any of its associated persons is the subject of any disciplinary action taken by the Firm involving suspension, termination, the withholding of compensation or of any other remuneration in excess of $2,500, the imposition of fines in excess of $2,500 or is otherwise disciplined in any manner that would have a significant limitation on the individual's activities on a temporary or permanent basis.

Fortune’s CCO shall promptly report to FINRA, but in any event not later than 30 calendar days, after the Firm has concluded or reasonably should have concluded that its associated person (or the Firm itself) has violated any securities, insurance, commodities, financial or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization.

To ensure that Fortune meets its reporting requirements, every individual associated with Fortune shall promptly report to the member the existence of any of the events set forth in this section of the WSP. To achieve compliance the CCO shall communicate the scope of the rule to its associated persons through any or all of the following:

- training
- internal memoranda
- periodic attestations

The CCO shall report to FINRA statistical and summary information regarding written customer complaints in such detail as FINRA shall specify by the 15th day of the month following the calendar quarter in which customer complaints are received by the member.

Nothing contained in this Rule shall eliminate, reduce, or otherwise abrogate the responsibilities of FFSI or any of its associated persons associated to promptly disclose required information on the Forms BD, U4 or U5, as applicable, to make any other required filings or to respond to FINRA with respect to any customer complaint, examination, or inquiry. In addition, Fortune is required to comply with the reporting obligations noted above, regardless of whether the information is reported or disclosed pursuant to any other rule or requirement, including the requirements of the Forms BD or U4 for its then-current associates. This additional reporting requirement does not apply for terminated ICRRs when the event is reported on Form U5.

The CCO shall promptly file with FINRA copies of:

- any indictment, information or other criminal complaint or plea agreement for conduct reportable under this section of the WSP
- any complaint in which a member is named as a defendant or respondent in any securities- or commodities-related private civil litigation, or is named as a defendant or respondent in any financial-related insurance private civil litigation
- any securities- or commodities-related arbitration claim, or financial-related insurance arbitration claim, filed

against a member in any forum other than the FINRA Dispute Resolution forum

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

Fortune's CCO is not required to comply separately with the document production requirements if the documents have already been provided to FINRA's Registration and Disclosure staff, provided they were submitted within 30 days of the staff's request.

10.2 Municipal Securities Complaints

Compliance is ultimately responsible for making certain (in accordance with MSRB Rule G-10) that, upon receipt of any customer complaint concerning municipal securities, an "investor brochure" is promptly sent to the customer.

Proof of sending the customer the "investor brochure" must be attached to the complaint and maintained as a permanent record of said complaint at the FFSI Compliance Department.

10.3 Contacts with Attorneys

ICRRs must immediately notify Compliance upon written or verbal contact by any attorney representing a customer, potential customer, claimant, or potential claimant. (A claimant is a party suing another party). It is required that a ICRR receiving such a call refer the attorney to the CCO without committing to or refusing any course of action.

10.4 Contacts with Regulators

Regulatory agencies such as FINRA, the SEC and many of the states routinely visit broker-dealers and their branches to inspect and examine their compliance and other business practices. In many cases, these visits or examinations are conducted on a surprise basis, and the branch is obligated by law to allow the regulator(s) access to conduct their exam.

The regulators will identify themselves by providing a business card upon arrival. At that time, and before engaging in a conversation or providing documents, the RR should advise the examiners that he/she is required to immediately contact the Supervisor and/or the CCO. Supervisors must report any such communication to the CCO, who will then assist the RR in determining the nature of the audit, arranging for prompt and complete provision of requested documents, and clarifying the specific requests of the examiners.

Minimizing the impact of a surprise exam requires ongoing dedication to upholding the policies and procedures of Fortune, and familiarity with its compliance procedures.

11 OPENING NEW ACCOUNTS; ACCOUNT TRANSFERS

11.1 Client Information Form

Every client of Fortune Financial must provide certain basic information and the ICRR must evaluate that information for "suitability" and other purposes when undertaking transactions for the customer in any account. The ICRR who opens the account is responsible for seeing that a Client Information Form (CIF) is filled out for every new client and that all required information is provided (or refusal to provide information is noted), signatures are obtained, including the customer signature and the signature of the designated Principal. The designated Principal, in his or her periodic reviews of customer account activity, will confirm the Representatives' fulfillment of their CIF responsibilities.

Each ICRR should make sure that all CIF documentation in his or her customer records is updated so that it is current for any customer regarding which a suitability determination was made in the prior 36 months. This requires periodic communication with customers to update their CIFs.

The ICRR is responsible for the accuracy of the information contained in the CIF and shall obtain such information directly from the customer. The ICRR shall know his or her customer to be able to determine whether it is appropriate for Fortune to do business with such customer. The Registered Representative shall make inquiry into the customer's investment objectives and financial capabilities for all types of accounts. *See section 16.3 below for detailed record keeping requirements related to customer account information.*

11.2 New Transaction Application

For each new transaction, the ICRR must complete and submit a New Transaction Application (NTA). This form lists the title and type of account and information specific to the attached sale. The NTA must be reviewed in conjunction with the CIF to have a complete picture of the clients' needs, situations and whether each sale is suitable for the client.

The NTA must be used for any additional funds added to the account over $10,000, whether or not the client notified the ICRR of the additional funding or sent the funds directly to the investment or insurance company. Under Regulation Continued Due Diligence (CDD), Fortune must continue to track the source of funds.

The NTA may also be used to meet the 36-month information update or confirmation requirements. By reviewing the CIF with the client at the time of a new sale, the client may choose to confirm the information on file, thereby resetting the 36-month window.

11.3 Other Documentation

In addition, the ICRR is responsible for seeing that all required backup documentation has been filled out and is included with the NTA: *this includes all documentation with respect to any transaction(s) being undertaken at the time the account is opened.* Transactions will not be processed if the required documentation has not been submitted and approved.

The Registered Representative shall make certain that the customer is aware of and understands the nature, significance, and obligations of every type of account opened and maintained for the customer and the significance of each order placed.

Care must be taken to discuss the options with the client and to make sure that the objectives and tolerance are consistent. *Section 7* includes descriptions of generally required suitability considerations, as do other Sections in this WSP regarding specific types of investments. ICRR's must read these Sections to thoroughly understand their obligations when recommending securities to customers.

11.4 Completing Sales Documents

In completing the CIF, NTA, and/or other disclosure documents the following practices should be observed:

- Each Registered Representative must review the form for accuracy and completeness, and must sign the forms
- Each account must be opened in the full legal name of the customer including the full first name and the customer must sign the forms
- Joint accounts must include the type of joint tenancy, e.g., Joint Tenants, Tenants-In-Common, Tenants-By-Entirety, or Community Property
- Estate or trust accounts should include specific descriptive titles—e.g., pension, profit-sharing, testamentary, or living trust—and the names of the trustees and the date of the trust, pension plan, or retirement plan must be included
- Corporate status should be indicated in the title of the account and the file must include the necessary authorizing resolution

- The mailing address should be a permanent residence or permanent business address. All addresses should include a zip code. If the mailing address is other than the customer's home address (for instance, a P.O. Box or third-party address), the home address must also be noted.
    - The account form should also include the home telephone number.
- Social Security Number (SSN - for individuals) or Tax Identification Number (TIN - for entities) must be entered for all accounts in accordance with the following rules:
    - If custodian account (UGMA / UTMA)—use the SSN of the minor
    - If trust account—use the SSN of beneficiary or TIN of the trust, if applicable
    - If joint account in name of husband and wife—both SSNs are necessary
    - If an entity—use the TIN
- For individuals, the ICRR should indicate the name and address of the customer's employer, years employed, business telephone number and, in addition, if customer is married and spouse is employed, indicate the name of the employer of the spouse;
- For individuals, date of birth and confirmation that client is of legal age;
- If the customer is an organization, the ICRR should describe the type of organization specifically; e.g., hedge fund, investment partnership, broker-dealer, investment advisory partnership, etc.;
    - If the customer is an investment partnership, the ICRR should note that in compliance with the their obligation (and that of Fortune to know the customer), certain additional information must be obtained in advance with respect to both the limited and general partners: the names of the general and limited partners; their respective occupations and business addresses; whether the general or limited partners are U.S. citizens; the status of each of the partners (whether sophisticated, accredited, etc.); and whether any of the general or limited partners—or members of their immediate families—fall within restricted categories, such as persons associated with brokers, dealers, mutual funds, banks, trust companies, insurance companies, etc.
    - If a general or limited partner is associated in any capacity with a member of the NYSE, AMEX, or FINRA, written consent from such member organization should be obtained as well as the name of the person at such organization who is to receive copies of transaction documents of the investment partnership involved
- When a third party who is not listed as an owner of the account will give instructions regarding orders, disposition of funds, or other actions involving an account, ICRRs must obtain a signed third-party authorization or power-of-attorney prior to accepting instruction from the third-party.
    - Such documents will include guarantee of accounts and powers of attorney and other evidence of the granting of any discretionary authority given in respect of any account.
    - The authorization is signed by the owner(s) of the account and the third party, giving the third-party authority to act on behalf of the principal. Note: RRs are prohibited from accepting discretion over any customer account.
- If the account is established for a Corporation, copies of resolutions empowering an agent to act on behalf of a corporation must be obtained.
- In the case of a trust, partnership or other entity, applicable documentation showing the duties, powers and authority of the trustee, partner, or other party must also be received.
- The type of account opened (qualified, non-qualified, individual, IRA etc.) must be noted on the NTA
- Notation whether customer is an associated person of another broker dealer or a more than 10% shareholder in a public company

11.5 Account Review

The Principal reviewing the new account will check any proposed transaction against collected customer data and related ICRR evidence to determine if “suitability” is being observed. Subsequent reviews of account activity must include reviews of changes to account information, including address and investment objectives, to determine that information is up-to-date and that changes are conveyed to customers via some form of notification *(see Section 16.3).*

The designated Principal must review a new account in a timely manner, indicating his/her prior approval by signature or other means as may be acceptable to the CCO.

All data regarding sales, approvals, cancellations etc. is maintained in Fortune’s sales database.

11.6 Personal Accounts of RRs of Other Firms

All personal accounts of Registered Representatives of other firms must be pre-approved by the designated Principal. When knowingly accepting a transaction for the purchase or sale of a security for the account of a person associated with another member (employer member), or for any account for which such associated person has discretionary authority, Fortune shall use reasonable diligence to determine that the execution of such transaction will not adversely affect the interests of the employer member.

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

- Notify the employer member in writing, prior to the execution of a transaction for such account, of the Firm’s intention to open the account
- Upon written request by the employer member, transmit duplicate copies of confirmations, statements, provide data feeds, electronic access, or other information with respect to such account
- Notify the person associated with the employer member of the Firm’s intention to provide the notice and information required by the above two sections

The designated Principal, in his or her reviews of new accounts, will ensure that these procedures are followed and that records are kept evidencing such compliance.

11.7 Transactions Involving FINRA or AMEX Employees

Where Fortune knows that an employee of FINRA or American Stock Exchange (AMEX) has a financial interest in, or controls trading in, an account, the Firm shall obtain and implement an instruction from the employee directing that duplicate account statements be provided by the Firm to FINRA.

In addition, the Firm will not directly or indirectly make any loan of money or securities to any such FINRA or AMEX employee (except where loans are made in the context of disclosed, routine banking and brokerage agreements, or loans that are clearly motivated by a personal or family relationship). ***NOTE: Fortune Financial does not make loans to ICRRs or clients, does not custody funds or provide access to such loans.*** Also, the Firm will not directly or indirectly give, or permit to be given, anything of more than nominal value (notwithstanding the annual dollar limitation set forth in Rule 3220 to any FINRA or AMEX employee who has responsibility for a regulatory matter that involves the Firm (such as examinations, disciplinary proceedings, membership applications, etc.).

The designated Principal, in his or her reviews of new accounts, will ensure that these procedures are followed and that records are kept evidencing such compliance. Should evidence be found of prohibited loans or gifts or gratuities, the designated Principal will investigate and take disciplinary action, if necessary.

11.8 Associated Persons with a Personal Account at another BD, RIA, Bank or Other Financial Institution

Any associated person of Fortune Financial Services, Inc. who opens a securities account or places an order for the purchase or sale of securities with a domestic or foreign broker dealer investment adviser, bank, or other financial institution, except a member, shall:

- Notify the designated Principal in writing, prior to the execution of any initial transactions, of the intention to open the account or place the order
- Upon written request by the Firm, request in writing and assure that the investment adviser, bank, or other financial institution provides the Firm with duplicate copies of confirmations, statements, data feeds, electronic access or other information concerning the account or order

If an account subject to this subsection was established prior to the time the ICRR joined Fortune, the person shall comply with this subsection promptly after becoming so associated. (All Company personnel are required to confirm their understanding of these obligations by reading and attesting to Fortune policy on Personal Accounts and Trading).

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

11.9 "Household" Prospectus Delivery

When delivering prospectuses to two or more customers at a shared address, associated persons may send a single prospectus to the address if certain conditions are met. The specific conditions are described in Rule 154 of the SEC Exchange Act of 1933, and include conditions related to how recipients are addressed, consent of customers, notification of deliveries and definition of address. The Home Office will review the prospectus delivery practices of ICRRs to ensure compliance with the requirements under Rule 154. In instances where the custodian delivers prospectuses to customers, the Firm will rely on product sponsors (Investment Companies) to comply with SEC Rule 154.

11.10 Investments of Liquefied Home Equity

Customers who liquefy home equity to make securities investments are faced with significant and unique risks, including:

- losing their homes (typically their largest and most stable asset)
- misapprehending their risk tolerance for investments using liquefied home equity, and being forced to liquidate securities at a loss
- failing to recognize certain potential conflicts of interest, for example, a broker's desire to earn commissions or fees on such investments or the BD or its affiliate's earning compensation on the refinancing if it is also the lender or receiving referral fees from the lender
- undermining the asset diversification benefit of home ownership

Once liquefied for investments in securities, a homeowner can much more easily and quickly lose the equity in his or her home.

Fortune limits approval for use of home equity (or reverse mortgages) and requires its ICRR's, when recommending a securities investment using liquefied home equity (proceeds from refinancing), to consider not only whether the recommended investments are suitable, but also whether the strategy of investing liquefied home equity in securities is suitable. ICRR's must perform a suitability analysis in this situation to determine if investment of liquefied home equity is prudent. The client must also review and sign a disclosure form regarding the risks of using home equity for investing,

In addition to the factors typically considered as part of a suitability analysis, Fortune and its associated persons should also consider:

- How much equity does the investor have in his or her home
- What is the level of equity being liquefied for investments
- How will the investor meet his or her increased mortgage obligations
- Is the mortgage or home equity loan at a fixed or variable rate
- What is the investor's risk tolerance with respect to the funds being invested
- What is the investor's overall debt burden
- What is the sustainability of the value of the investor's home

The guiding principle in this suitability analysis is as follows: ICRR's are prohibited from recommending the purchase of securities or the continuing purchase of securities in amounts that are inconsistent with the reasonable expectation that the customer has the financial ability to meet such a commitment.

The Firm makes an effort to ensure that customers are adequately informed of the risks and conflicts of such a strategy. When making each such recommendation ICRR's should disclose, orally during discussions with customers, the following risks, and conflicts of investing liquefied home equity:

- The potential loss of one's home
- The fact that unlike other potential lenders, Fortune has an interest in having the proceeds of the loan used for investments that may generate commissions, mark-ups, or fees for the Firm
- The Firm or its affiliate may earn fees in connection with originating the loan (if applicable, the RR must disclose the nature of any such compensation, including referral fees from unaffiliated lenders)
- The impact of liquefied home equity on the ability to refinance a home mortgage; and
- Depending on the amount of home equity liquefied and any change in home value, the homeowner may have negative equity in his or her home

Sales materials and oral presentations concerning investments of liquefied home equity must meet all requirements, including supervisory review procedures.

In certain situations, when a customer is considered to have a greater risk profile, heightened supervision or specific account approval procedures should be put into effect. ICRR's are obligated to bring such customers to the attention of Compliance; and designated Principals, in their review of new accounts and daily account activity, are obligated to originate and conduct heightened supervision, if deemed necessary. When leverage is involved, such as specific trading strategies, like day trading, associated persons must follow required specific account approval procedures, as described elsewhere in this Manual.

Compliance in reviews of daily trade activity, will take note of recommended investments of liquefied home equity. Periodic reviews of customer account documentation and Correspondence will include a review of evidence of disclosure of the risks and conflicts associated with these investments. Perceived lack of disclosure or thorough suitability assessment will result in further investigation by the designated Principal and possible disciplinary action taken against the respective Registered Rep.

12 TRANSACTIONS

12.1 Charges for Services

In accordance with Rule 2121 of FINRA Rules, charges, if any, for services performed shall be reasonable and not unfairly discriminatory between customers.

Mutual Funds and UIT Sales: Fees and commissions earned by the Firm from transactions in mutual funds and unit investment trusts will be carefully reviewed by the designated Principal to identify improper practices such as switching, avoiding, or not recognizing breakpoints (or available discounts) and recommending purchases prior to funds going "ex-dividend." *See below under "Particular Investment Products – Mutual Funds"* for a description of these practices and related supervisory authority.

12.2 Fictitious Accounts

Establishing fictitious accounts to execute transactions is strictly prohibited and considered a fraudulent practice. For example, such accounts could be used to conduct securities transactions based on insider information or to illegally purchase new issues since neither the selling broker-dealer nor the Registered Representative's broker-dealer would have knowledge of the transaction. Similarly, a ICRR could conceal his/her involvement in an account of an immediate family member in order to execute transactions which otherwise would be prohibited. The term immediate family shall include parents, mother-in-law or father-in-law, husband or wife, brother or sister, brother-in-law or sister-in-law, son-in-law or daughter-in-law, and children. In addition, the term shall include any other person who is supported, directly or indirectly, to a material extent by the Firm or an associated person.

Fortune Principals, in the daily course of their supervisory duties, will make every effort possible to identify fictitious accounts. Should any such accounts be suspected, this information will be brought to the attention of the CCO, who will investigate the matter and forward it for regulatory review, if necessary.

12.3 "Parking" of Securities

"Parking" is a process whereby a broker-dealer or Representative arranges for securities actually owned or controlled by one person, company, or corporation to be held or "parked" in street name or record name of another, giving the misleading impression that they are really owned by that other person, company, or corporation. Whether the device is called a "loan," a "pledge" or a "transfer" the effect is the same: the person doing the "parking" has the capacity to exert ownership or control over the securities under an arrangement which allows that person to direct their sale, pledge, voting or other disposition as if he/she were the record owner. Often the person and those involved in this activity expect to benefit from an anticipated appreciation in value once the total transaction is accomplished.

"Parking" is often utilized to conceal trading activity, to avoid 13D reporting to the SEC of acquisition of a "control" block, to evade net capital requirements, limits on percentage ownership applicable to mutual funds and the like.

It is a violation of SEC and FINRA rules (including the net capital rules) for a broker-dealer to "park" securities. Any ICRR involved in a scheme to "park" securities will be subject to severe disciplinary sanctions by the Firm.

Electronic surveillance of trading and other securities transfer activity today is so sensitive that the existence of unexplained and significant transfers of securities among related or concerted parties or groups will likely be picked up immediately and a regulatory inquiry will develop.

13 COMMUNICATIONS WITH THE PUBLIC

Fortune has established content standards, supervisory policies and procedures, and other terms and conditions for the review of communications with the public that, in some instances, exceed the standards set forth in FINRA rules 2210, Communications with the Public. Fortune considers any communication sent to more than one person to be subject to prior review as "retail communications." Fortune does NOT permit RRs to distribute up to twenty-five pieces of any material to its customers or prospective customers in a 30-day period unless prior approval has been attained. Fortune also does not offer any exceptions to its prior review requirements for materials deemed to be institutional communications.

13.1 Definitions

Communications with the public, including client and prospects, include the following categories:

"Communications" consist of correspondence, retail communications and institutional communications.

"Correspondence" means any written (including electronic) communication that is distributed or made available to twenty-fiveor fewer retail investors within any 30 calendar-day period. *See Section 7.6, above, for Correspondence review and approval procedures.*

"Institutional communication" means any written (including electronic) communication that is distributed or made available only to institutional investors but does not include a member's internal communications.

"Institutional investor" means any:

- person described in Rule 4512(c), regardless of whether the person has an account with a member;
- governmental entity or subdivision thereof;
- employee benefit plan, or multiple employee benefit plans offered to employees of the same employer, that meet the requirements of Section 403(b) or Section 457 of the Internal Revenue Code and in the aggregate have at least one hundred participants, but does not include any participant of such plans;
- qualified plan, as defined in Section 3(a)(12)(C) of the Exchange Act, or multiple qualified plans offered to employees of the same employer, that in the aggregate have at least one hundred participants, but does not include anyparticipant of such plans;
- member or registered person of such a member; and
- person acting solely on behalf of any such institutional investor.
    - No member may treat a communication as having been distributed to an institutional investor if the member has reason to believe that the communication or any excerpt thereof will be forwarded or made available to any retail investor.

"Retail communication" means any written (including electronic) communication that is distributed or made available to more than twenty-five retail investors within any 30 calendar-day period.

"Retail investor" means any person other than an institutional investor, regardless of whether the person has an account with a member.

"Public appearance" refers to participation in a seminar, forum (including interactive electronic forums, such as chat rooms), radio or television interview, and other public appearance or public speaking activity. An appearance before fewer than fifteen investors would not be categorized by FINRA as a public appearance.

An **"Independently prepared reprint"** is any reprint or excerpt of any article issued by a publisher (the publisher must be truly independent—for instance, not affiliated with or commissioned by the Firm--as defined in the Rule) and any report prepared by an independent research firm concerning a registered investment company (again, it must be truly independent, as defined). Article reprints or research reports that do not meet the independence standards must be treated as sales literature and therefore must meet all requirements applicable to sales literature.

An "**investment analysis tool**" is an interactive technological tool that produces simulations and statistical analyses that present the likelihood of various investment outcomes if certain investments are made or certain investment strategies or styles are undertaken, thereby serving as an additional resource to investors in the evaluation of the potential risks and returns of investment choices. This definition does not include hypothetical illustrations of mathematical principles that assume certain variables and then compute a result, based on those variables. These mathematical illustrations do not predict the *likelihood* of investment outcomes, as do investment analysis tools.

13.2 Content Standards and Guidelines

General Standards Applicable to All Communications with Public. In all communications with the public and its customers, Fortune and its ICRR must follow these standards:

- Observe principles of fair dealing and good faith while providing a sound basis for evaluating the merits of any security or service offered
- Communications must be fair and balanced and must not be misleading, omit material facts or contain inaccurate statements
- The Firm and its ICRR's must not make any false, exaggerated, unwarranted or misleading statement or claim in any communication with the public; nor must it publish, circulate, or distribute any public communication knownor suspected to contain any untrue statement of a material fact or is otherwise false or misleading
- Information may be placed in a legend or footnote only if such placement would not inhibit an investor's understanding of the communication
- Communications with the public may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast.
  - A hypothetical illustration of mathematical principles is permitted, provided that it does not predict or project the *likelihood* of achieving performance of an investment or investment strategy calculated based on assumed variables.
  - It is acceptable to offer customers investment analysis tools, as well as written reports and sales materials based on such tools, if Fortune meets all requirements under FINRA rule ***2214 Requirements for the Use of Investment Analysis Tools*** (*see below*).
  - If any testimonial in a communication with the public concerns a technical aspect of investing, the person making the testimonial must have the knowledge and experience to form a valid opinion

ICRRs disseminating, and Principals charged with approving communications with the public should heed the following guidelines:

- The **context** must be considered. A statement made in one context may be misleading even though such a statement could be appropriate in another context. Communications must present a balanced treatment of risks and potential benefits, including considerations of the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield inherent to investments;
- The nature of the **target** audience must be considered. Different levels of explanation or detail may be necessary depending on the audience to which a communication is directed. Additional information or a different presentation of information may be required depending upon the medium used for a particular communication and the possibility that the communication will reach a larger or different audience than the one initially targeted.
- Communications must be **clear**. A statement made in an unclear manner can cause a misunderstanding. A complex or overly technical explanation may be more confusing than too little information.
- Income or investment returns may not be characterized as **tax-free** or exempt from income tax when tax liability is merely postponed or deferred, such as when taxes are payable upon redemption.

- References to **tax-free or tax-exempt** income must indicate which income taxes apply, or which do not, unless income is free from all applicable taxes. For example, if income from an investment company investing in municipal bonds is subject to state or local income taxes, this fact must be stated, or the illustration must otherwise make it clear that income is free only from federal income tax.
- The Firm may indicate **FINRA membership** in any communication with the public if it neither states nor implies that FINRA or any other regulatory organization endorses, indemnifies, or guarantees the Firm's business practices, selling methods, the class or type of securities offered, or any specific security.
- All Retail Communications must prominently **disclose** the Fortune's name (and commonly recognized dba, if applicable); must reflect the relationship between the Firm and any non-member or individual who is named; and, if it includes other entity names, it must reflect which products and services are being offered by each entity.
- Fortune communications, which meets the standards set forth in the **SIPC By-Laws**, must include a notation that the Firm is a member of SIPC.
    - This may be achieved by including one of the following: a reproduction of the official symbol, the official advertising statement, or the official explanatory statement (revised in 2002 to include reference to SIPC's website). These choices are described in Article 11, Section 4 of the SIPC by-laws, obtainable on the SIPC website: www.sipc.org.
- When providing **testimonials** as to Fortune or its products, materials must prominently disclose that the testimonial may not represent the experience of other clients, is no guarantee of future performance, and is a paid testimonial (if more than a nominal sum was paid). Generally, testimonials are not allowed.
- When including **comparisons** between investments or services, materials must disclose all material differences between them, such as investment objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return and tax features.
- When making or referring to r**ecommendations** in retail communications, the designated Principal must have a reasonable basis for the recommendation and the materials must disclose any of the following situations which are applicable:
    - that at the time the communication was published, the Firm was making a market in the securities being recommended, or in the underlying security if the recommended security is an option or security future, or that the Firm or associated persons will sell to or buy from customers on a principal basis
    - that the Firm and/or its officers or partners have a financial interest in any of the securities of the issuer whose securities are recommended, and the nature of the financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position), unless the extent of the financial interest is nominal
    - that the Firm was manager or co-manager of a public offering of any securities of the recommended issuer within the past 12 months
    - ***Fortune Financial Services is a limited purpose broker dealer selling only mutual funds and annuities and is not a market maker or involved with public offerings.***
- With regard to **recommendations**, ICRRs must provide, or offer to furnish upon request, available investment information supporting any recommendation made.
    - Associated persons may use material referring to past recommendations if it sets forth all recommendations as to the same type, kind, grade, or classification of securities made by it within thelast year. Longer periods of years may be covered if they are consecutive and include the most recentyear.
    - Such material must also name each security recommended and give the date and nature of each recommendation (e.g., whether to buy or sell), the price at the time of the recommendation, the price

at which or the price range within which the recommendation was to be acted upon and indicate the general market conditions during the period covered.

  - Also permitted is material that does not make any specific recommendation, but which offers to furnish a list of all recommendations made by the Firm within the past year or over longer periods of consecutive years, including the most recent year, if this list contains all the information specified in the bullet point above.
    - Neither the list of recommendations, nor material offering such list, shall imply comparable future performance.
    - Reference to the results of a previous specific recommendation, including such a reference in a follow-up research report or market letter, is prohibited if the intent or the effect is to show the success of a past recommendation, unless all of the foregoing requirements with respect to past recommendations are met.
    - All communications with the public addressing a strategy of liquefying home equity must be fair and balanced, and accurately depict the risks of investing this source of funds.

All of the Firm's advertising will comply with applicable SEC Rules and Regulations, including revised Rule 482 under the '33 Act concerning **"482 advertisements"** of investment company offerings.

13.3 Websites

Fortune maintains a website for informational purposes, and for its ICRRs. Fortune does not maintain a website for clients to access account information. Clients may obtain account information by going to the website of the investment or insurance company. In addition, ICRR's may provide, at their own cost, certain aggregation, or account management software.

Registered Representatives must adhere to the following policies regarding websites:

- ICRRs are permitted to establish a website ONLY via Company approved vendor(s).
- The identity, content, sample format and operating mechanics of each website must be presented for advertising review and approved PRIOR to publication. Failure to obtain pre-approval will result in the site being terminated and may be grounds for remedial action, up to and including termination.
- Any material changes in the content, format or mechanics of the website must be similarly approved before they are implemented.
- The designated Principal shall maintain a comprehensive address list of all websites in use for the business of the Firm and its ICRRs (including associated entities such as registered investment advisors, insurance agencies, etc.).
- Reference to its FINRA membership on websites it must provide a link to FINRA's internet home page, www.finra.org, in close proximity to the member's indication of FINRA membership.
  - A member is not required to provide more than one such hyperlink on its Web site.
  - If the member's Web site contains more than one indication of FINRA membership, the member may elect to provide any one hyperlink in close proximity to any reference reasonably designed to draw the public's attention to FINRA membership.
    - This provision also shall apply to an internet Web site relating to the member's investment banking or securities business maintained by or on behalf of any person associated with a member.
- Where a reference to SIPC membership is on a website, it must also provide a link to the SIPC website, www.sipc.org so that the customer may obtain additional information from SIPC directly.
- Chat functions, whether human or AI, are prohibited on websites.

- Broker dealers are responsible for the accuracy of their statements that reasonably can be expected to reach investors or the securities markets regardless of the medium through which the statements are made, including the Internet.
    - According to the SEC, broker dealers are responsible if they have involved themselves in the preparation of the information or explicitly or implicitly endorsed or approved the information.
        - In the case of site owner liability for statements by third parties such as analysts, the courts and the SEC have referred to the first line of inquiry as the "entanglement" theory and the second as the "adoption" theory.
    - In view of the potential liability attendant upon the use if hyperlinks, the Firm requires that the Compliance department review and approve in advance the use of each hyperlink on the Firm website. *See above for more information on hyperlinks*.
- The designated Principal, in reviewing websites, shall test hyperlinks to ensure that they are working properly and will note his/her findings in the files relating to the review/approval of the website.
- When approving Internet communication, the designated Principal must consider certain important risks concerning the use of key words by contracted search engines.
    - Key words may be used to post ads in the following ways:
        - 1) the search engine pushes the ad out to relevant web pages (for instance, the Firm's ad ends up a banner ad on a website advertising a certain securities product or service); and
        - 2) the search engine lists the Firm on the 'sponsored links' panel of the search page itself (placement determined by bidding process).
    - This first type of placement may result in unplanned and unwanted advertising, for instance, on scam websites designed for the site owner's illegal profit.
        - While the designated Principal cannot ensure a foolproof solution to this potentiality, s/he should work with the search engine provider to wisely choose key words in order to minimize the risk of improper placement.
    - Company personnel knowing of any instances of inappropriate ad postings as a result of key word placement should contact the designated advertising Principal immediately, who must then take steps to eliminate such placement.
- Should any Company personnel discover the apparent use stolen ("scraped") Company ads on web pages (for instance, on scam "pump and dump" sites), s/he should immediate report such to the designated advertising Principal for follow up action.
    - While the Firm cannot control the illegal use of scraped ads, it should report all those discovered to FINRA or SEC for investigation and enforcement action.
- The Designated Principal will monitor all websites on a regular basis to identify and correct any variances from Company policies and procedures.

In addition, the Firm requires that individual Registered Representatives obtain advance approval from the designated Principal before they initiate or change their own websites, *whether or not the change involves the RR's securities business.* Included in such approval would be

- any hyperlinks to other sites such as the Firm's site and
- hyperlinks allowed on to the Registered Representative website.

13.4 Use of Social Media

Social network sites, such as Facebook, Instagram, Twitter, and LinkedIn, allow individuals to (1) construct a public or semi-public profile within a website and (2) form relationships with other users of the same website who access their profile. Individuals use these websites to communicate with other individuals within their network. As such, any business communications through these websites are subject to FINRA rules governing advertising and public appearances that protect the investing public from false or misleading claims and representations. FINRA's rules require the Firm to supervise its associated persons' participation in these sites for business purposes, which presents recordkeeping and monitoring challenges.

Fortune allows the use of LinkedIn, Twitter, and Instagram when archived through our archive email provider, SMARSH. The Firm allows Facebook accounts when archived through SMARSH with preapproval only. The Firm does NOT permit the use of these sites when the representative has not archived them through SMARSH. Associated persons are not permitted to participate in any other social network site, or in any blogs or chat rooms for securities purposes.

If an associated person desires to use LinkedIn, he or she must:

- **Profile** - Submit his or her profile to the CCO for prior approval (before it is posted)
- **Updates** - Submit any changes or updates to Summary Profile, Summary, Specialties, Job History, Education, Interests, Honors and Awards to CCO for PRIOR approval (before it is posted)
- **Password Protected** - Ensure the profile page is NOT public (password protected)
- **Fortune Financial Email** - Use only the corporate email address (setup through Smarsh) – NO personal email or IM address
- **Groups** – Associated persons may join and/or create groups
- **Public Appearances** – Using any of the following LinkedIn features is considered a public appearance: *Network Updates, Creating Network Update Comments, Creating Network Update Reply, Q&A, Posting to a Group, and Creating a Group Discussion*. As such, participation is subject to the general standards that apply to all customer communications (*see the Customer Communications* section of the WSPs).
- **Suitability Issues** – ICRRs are **PROHIBITED** from mentioning specific funds or securities
- **Recommendations and other Third-Party Posts** – Associated persons must obtain **PRIOR WRITTEN APPROVAL** before making a 'recommendations' or prior to any business-related static post to a third-party site.
  - RRs are PROHIBITED from soliciting, editing, drafting or other involvement in business-related third-party posts to the RR's site.

If an associated person desires to use Facebook, he or she must:

- **Content –** provide a general description of the planned use of Facebook, the content and look.
- **Approval** – If Compliance grants approval, then, the RR will be set up in Smarsh and must complete the activation by following the instructions from Smarsh.
- **Review** – Compliance will then review and require edits. Review will be ongoing in connection with general email review procedures
- **Other Requirements:**
  - Only use approved email (setup through Smarsh) – NO personal email or IM address
  - Suitability Issues – ICRRs are **PROHIBITED** from mentioning specific funds or securities
  - Recommendations and other Third-Party Posts – Associated persons must obtain **PRIOR WRITTEN APPROVAL** before making a 'recommendations' or prior to any business-related static post to a third-party site.

- RRs are **PROHIBITED** from soliciting, editing, drafting or other involvement in business-related third-party posts to the RR's site.
- Links must be approved with the appropriate entanglement or adoption criteria review documented

13.5 Hyperlinks

When electronic delivery is used it is often difficult to establish whether multiple documents may be considered delivered together. Documents in close proximity on the same website menu are considered delivered together and documents hyperlinked to each other are considered delivered together as if they were in the same paper envelope. Therefore, by linking documents via hyperlinks, issuers and intermediaries are delivering multiple documents simultaneously to investors when so required by the federal securities laws.

When providing prospectuses to customers electronically, the following distinctions should be understood. According to the SEC, information on a website is part of a prospectus only if an issuer (or person acting on behalf of the issuer, including an intermediary with delivery obligations) acts to make it part of the prospectus. For example, if an issuer includes a hyperlink within a prospectus, the hyperlinked information would become a part of that prospectus. When embedded hyperlinks are used, the hyperlinked information must be filed as part of the prospectus in the effective registration statement and will be subject to liability under Section 11 of the Securities Act. In contrast, a hyperlink from an external document to a prospectus would result in both documents being delivered together but would not result in the non-prospectus document being deemed part of the prospectus. When the Firm is responsible for prospectus content, the designated Principal will ensure proper use of hyperlinks in electronic information delivery.

As a general matter, the Firm is responsible for hyperlinked information, including any information contained in a hyperlinked website that provides an investment analysis tool. However, under certain limited circumstances, the Firm is not responsible for the content and filing of material that appears on independent, third-party websites.
Other than the required links listed previously, all other hyperlinks (on the RR site to another site or from another site to the RR site) must be reviewed and approved by compliance to avoid entanglement or adoption issues.

13.6 Instant or Text Messaging

The Firm generally discourages communication with customers via instant messaging technology and communication with customers via text messaging from remote devices, such as home computers, mobile phones and hand-held computers. If a representative elects to use text messaging, they must subscribe to the Firm's approved communication platform, CellTrust, to communicate securities-related affairs.

13.7 Institutional Sales Material

Institutional sales material, as defined above, is included in the definition of "communications with the public." Therefore, all procedures relating to communications, in general, also apply to institutional sales material (such as the general content and guidelines described in Section 11.2, above). "Broker-dealer use only" material is included in the definition of institutional sales material.

While deciding whether or not materials can be categorized as institutional sales material, it is important to consider the following: if the Firm believes that sales material distributed to institutional investors may possibly end up being distributed to non-institutional investors (such as 401(k) plan participants or other retail investors), the information must be treated by Fortune as retail sales material subject to respective content, approval and filing requirements. If personnel have questions about this designation, they should consult the Principal designated to approve communications with the public for guidance.

All institutional sales material is subject to review by the CCO. The Firm requires pre-review and approval of all institutional sales material. The CCO will evidence his/her approval by initialing and dating copies of this material prior to its use. The copies must be filed in the applicable file and each copy must include the name of the person who prepared it. Language discovered in this review process that does not conform to general content standards and guidelines will be brought to the attention of the author and subsequent reviews of such person's institutional sales material will take place to ensure adherence to these rules.

All institutional sales material shall be retained for a period of not fewer than three (3) years after the date of last use and shall be readily accessible to examiners.

13.8 Investment Company Advertising and Sales Literature

Besides general FINRA guidelines related to communications, there are specific requirements relating to the use of investment company advertising and sales literature. Fortune generally follows these mutual fund sales policies:

- Communications prepared by the sponsor, underwriter or Company must have FINRA approval and be free of misleading and false information.
- Research reports published by research firms
- The use of rankings in all communications will comply with the standards set forth FINRA Rule 2212 concerning permitted types of rankings, necessary disclosures, time periods and categories (these standards are complex and should be consulted by the designated Principal when reviewing sales literature and advertising for approval);
- For registered investment companies (including mutual funds, variable contracts, and unit investment trusts) as well as other securities representing investments in pools of securities, such as municipal fund securities, sales materials containing certain statements related to performance, investment objectives, experience, benefits, andrisks, and/or fees must be reviewed and filed in accordance with Rule 2210 and 2211;
- "482 advertisements" are advertisements defined under SEC Rules 482 of the 33 Act that are not necessarily the statutory prospectuses required to be presented to potential investors in all investment company offerings, but that refer to such prospectuses. These advertisements must not be accompanied by an application to purchase fund shares. 482 advertisements that contain performance data must include the following information:
  - a statement that past performance does not guarantee future results;
  - a statement that current performance may be lower or higher than the performance data quoted; and
  - a toll-free or collect telephone number or a website where an investor may obtain performance data current to the most recent month-end, unless the advertisement includes total return quotations current to the most recent month ended seven business days prior to the date of use.
  - These advertisements must also include a statement that advises the investor to carefully consider the fund's investment objectives, risks, and charges and expenses before investing; explains that the prospectus contains this and other information about the investment company; identifies the source from which the investor may obtain a prospectus; and states that the prospectus should be read carefully before investing.
  - All these disclosures—whether in print, electronically, or on TV/radio, must be presented prominently in accordance with the standards imposed under Rule 482, so as to not minimize their presentation (i.e., they must meet required type size, style, placement, and emphasis guidelines).
  - The designated Principal must ensure that all advertisements used to promote mutual funds meet these requirements or be revised and re-field with FINRA.
- A return of principal (capital gains distributions) should never be represented as income; and
- When dealing with customers, Fortune ICRRs shall not mislead by implying that the investment will provide a

guaranteed income or a particular rate of return, or that past asset values and dividends can be depended on in the future.

Rules 2213 govern the use of bond mutual fund volatility ratings in member sales literature. These Rules permit Fortune and its associated persons to include bond mutual fund volatility ratings in supplemental sales literature, subject to certain conditions, and require supplemental sales literature containing bond mutual fund volatility ratings to be filed with FINRA's Advertising Regulation Department for review and approval at least 10 days prior to use.

All mutual fund sales materials and correspondence, excluding institutional sales materials and public appearance, which includes performance data for non-money market funds must disclose the following:

- standardized performance information as mandated by SEC Rule 482 (average annual total returns net of maximum sales charges)
- to the extent applicable, the maximum sales charge imposed on purchases, or the maximum deferred salescharge as stated in the prospectus as of the date of publication or distribution of the sales materials
- the total annual fund expense ratio, gross of any fee waivers or expense reimbursements, as stated in the same prospectus as mentioned above

In any print advertising, the required information must appear in a prominent text box that contains only the required information and, at the Firm's discretion, comparative performance and fee data and disclosures as required by Rules 482 and 34b-1.

Materials not created by the applicable fund family will be sent to the fund family for review, if required by Fortune's selling agreement and will be filed with FINRA Advertising for review.

Copies of the materials showing evidence of review and submission will be retained in the Firm's Advertising/Sales Literature or Outgoing Correspondence file depending on the nature of the material being reviewed.

13.9 Standards Applicable to Investment Analysis Tools.

The following standards are specific to investment analysis tools, as defined above. Fortune does not offer investment analysis tools though ICRR's may, at their own cost. Written reports indicating the results generated by such tools and/or related sales material must adhere to the following guidelines:

- The use of the investment analysis tool and all recommendations based on the investment analysis tool (whether made via the automated tool or a written report) must comply, as applicable, Rule 2214, with the suitability rule (2111), the other provisions of Rule 2010 (including, but not limited to, the principles of fair dealing and good faith, the prohibition on exaggerated, unwarranted or misleading statements or claims, and any other applicable filing requirements for advertisements and sales literature), the federal securities laws (including, but not limited to, the antifraud provisions), the SEC rules (such as Rule 156 under the 33 Act) and other FINRA rules
- Materials or personnel may not imply that FINRA endorses or approves the use of any investment analysis tool,or any recommendation based on such a tool
- Materials must disclose the following <u>clearly and prominently</u> and this information must be in written or electronic narrative form (note: such information cannot be simply referenced in sales materials, reports, or thetools themselves; rather, such disclosures must be made in full on each item, though not every page of each item):
    - the criteria and methodology used, including the investment analysis tool's limitations and key assumptions;
    - an explanation that results may vary with each use and over time;
    - if applicable, the universe of investments considered in the analysis; how the tool determines which securities to select; if the tool favors certain securities and, if so, the reason for the selectivity; and a

statement that other investments not considered may have characteristics similar or superior to those being analyzed;

- the following additional disclosure: "IMPORTANT: The projections or other information generated by [name of investment analysis tool] regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results."

13.10 Filing Requirements

After the designated Principal has approved ads or sales literature for use and distribution, s/he will ensure that any advertisement or sales literature requiring review by FINRA Advertising Regulation Department will be filed. Rule 2210(c) should be consulted for clarification of specific filing requirements.

- All filings must include:
- the actual or anticipated date of first use,
- the name of and title of the registered principal who approved the communication,
- a brief description of the material,
- whether or not it will be used with a prospectus and the approval date.

Previously filed advertising and sales literatures that are used without material change need not be filed again.

In general, materials requiring filing within 10 days of first use or publication (i.e., post-use filing) include the following:

- Communications concerning registered investment companies (including mutual funds (except bond mutual funds), variable contracts, continuously offered closed-end funds, and unit investment trusts). If reference to a performance ranking or performance comparison is included, the filing must include a copy of such ranking or comparison
- Communication concerning public DPPs
- Retail communications concerning collateralized mortgage obligations registered under the Securities Act.
- Retail communications concerning any security that is registered under the Securities Act and that is derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance, or a foreign currency
- If the Firm has filed a required draft version or "story board" of a television or video communication, the designated Principal must ensure that the final filmed version is filed within ten business days of first use orbroadcast.

The following types of material are excluded from filing requirements:

- Communications solely related to recruitment or changes in a member's name, address, ownership, or personnelinformation.
- Communications that do no more than identify NASDAQ or a national securities exchange symbol of the Firm or identify a security for which the Firm is a NASDAQ registered market maker.
- Communications that do no more than identify Fortune or offer a specific security at a stated price.
- Prospectuses, preliminary prospectuses, fund profiles, offering circulars and similar documents that have been filed with the SEC or any state, or that is exempt from such registration, except that an investment company prospectus published pursuant to SEC Rule 482 will not be considered a prospectus for purposes of this exclusion.
- Announcements as a matter of record that the Firm has participated in a private placement unless the advertisements are related to direct participation programs or securities issued by registered investment companies.
- Press releases that are made available only to members of the media.

- Independently prepared reprints (which includes research reports on investment companies meeting the criteria described under “Research Reports,” below).
- Correspondence.
- Institutional sales material.
- Material that refers to investment company securities, direct participation programs, or exempted securities solely as part of a listing of products or services offered by the Firm.

NOTE: Fortune Financial is a limited purpose broker dealer that does not offer some of the securities referenced herein, such as DPPs or CMOs, and is not a market maker or investment company.

The designated Principal must ensure that the Firm has complied with initial advertising requirements described under the Rule and that Fortune complies with all additional filing requirements, if any, imposed on the Firm by FINRA.

13.11 Approval and Record Keeping

13.11.1 Communications with the Public and Independently Prepared Reprints

The designated Principal must approve by signature or initial and date each communication and independently prepared reprint before it is used or filed with FINRA's Advertising Regulation Department, if applicable, (whichever comes first).

In reviewing communications and reprints, the designated Principal must ensure adherence to all content standards and guidelines, both general and specific, as outlined above as well as all standards set forth in applicable FINRA, SEC, State and Federal Rules and Regulations. The language used in recommendations, testimonials, comparisons, references to FINRA and SIPC, and all other statements and disclosures must be reviewed for accuracy and regulatory compliance. If the designated Principal does not approve an item, s/he will return the item to the preparer with an explanation as to disapproval and will include recommended changes, if any, required to bring the item into compliance. The final revised item must be again forwarded to the designated Principal for final review and approval. No unapproved items must be used or distributed and altered versions of previously approved materials may not be used without Principal approval of the alterations.

Newsletters, if produced by a third party and distributed to the public, must adhere to all requirements for sales literature, including pre-approval by the CCO. The CCO will carefully review all newsletters to determine related requirements. RRs are required to present newsletters to the designated Principal for review, prior to use. (Note: communications about investment products, such as insurance products, may also be subject to review and approval, if, by virtue of distributing such materials, the intention is to sell securities.)

If filing is required prior to use, the designated Principal must withhold the material from publication or circulation until approved, or changed as specified, by FINRA. All approved communication and independently prepared reprints must be maintained in a separate file for a period of three years from the date of last use. This file must include the name of the Principal who approved each such piece, and the date approval was given. The names of the preparers of such materials need not be maintained.

13.11.2 Public Appearances

With regard to each activity that meets the definition of public appearance:

- The Designated Principal must provide advance permission for the ICRR’s activity
- The Designated Principal must review and approve all announcements or other publicity surrounding the event

- The Designated Principal must review and pre-approve all agendas, sales material presentations or other "handouts" or web page downloads. Copies of these materials will be retained in a file dedicated to the event
- ICRRs and the Designated Principal should consult rules and regulations of the state in which the presentation will occur to determine if state registration is required (many states have held that conducting public forums in which generic investment information is presented may be considered an investment advisory activity)
- Only products or services approved by Fortune for sale by Registered Representatives may be presented by those RRs. Generic investment principals is also allowed.
- Prospectuses, other offering circulars and approved sales material for approved products and services must be available physically or electronically for participants
- ICRRs must clearly identify themselves, the Firm, and the registered branch location through which their securities activities are supervised, "on the record" so that there can be no possibility of mistaking their presence
- The Designated Principal must ensure that all general content standards and guidelines described herein and contained in applicable FINRA, and SEC Rules are adhered to in all public appearance statements and materials
- It is the responsibility of the Representative involved to make sure that the Firm has a complete record of the event in its files including a list of participants
- Recorded appearances must be approved under the Communications with Public section before being posted to any electronic medium.

13.11.3 Statistical information

When statistical information is included in any communications with the public, a file must be maintained containing the source of any statistical table, chart, graph, or other illustration used by the Firm. The underlying data need not be maintained.

13.11.4 "Internal use only"

This is material is designed for use only by Registered Representatives and other associated persons and does not have to be reviewed as advertising. Nevertheless, it is subject to internal review by the CCO for compliance with the Firm policies and content standards.

"Broker-dealer use only" material," consisting of communication sent by the Firm only to other members or their registered persons, is included in the definition of institutional sales material. Therefore, these materials are not subject to the advertising review and approval process described above. Rather, they are subject to the standards described under "Institutional Sales Material." ICRRs are strictly prohibited from providing any material marked "broker-dealer use only" to customers as it may contain information which would not be allowed in a prospectus or under FINRA or SEC advertising rules. Failure to observe these rules could void any sales made and led to severe discipline and penalties.

See Section 7.6 for procedures on review and approval of correspondence. Additional, specific procedures related to approval of communications regarding certain products are described in the respective product sections in these WSP.

13.12 Privacy Protections

The Firm is also committed to complying with Reg. S-P, as described in "Privacy of Customer Information." The designated Principal must ensure that IT, staff, and outside vendors, if any, are aware of the importance of protecting theintegrity and confidentiality of customer information. This Principal must attempt to meet regularly with IT staff and/or outside vendors in order to assess the security of the Firm's systems, as well as to judge the adequacy of

compliance with various, applicable Rules (i.e., maintenance of records in correct format for required amount of time). While IT staff or vendors may be charged with implementing restrictions and technical applications, they may not remain awareof changing regulatory requirements or failures in the systems to meet those requirements. It is therefore important that compliance personnel monitor IT personnel's performance of their duties. In addition, the designated Principal is responsible for reviewing these procedures and others in this Manual concerning electronic information and communication systems, in order to determine their adequacy in light of changing technologies and regulatory guidelines.

All electronic communication with customers shall be subject to the following policies and procedures designed to safeguard generally the integrity and confidentiality of electronic information, including restricted access, passwords, systems to detect and thwart a security breach, etc.:

- The RR is strictly prohibited from using any electronic device or system for business purposes unless it secured with protective software such as firewalls and encryption.
- Compliance shall have free access to each system being used by that Representative to communicate with clients or others, upon request, in order to discharge supervisory responsibilities for review of correspondence and other communications.
- The ICRR is responsible for implementing password protection, reasonable 'time out' protocols, adequate virus protection including enabling auto-update on all systems, software, and devices in use in the ICRRs business.
- The RR is responsible for demonstrating that all appropriate, protective measures are taken in the implementation of business systems and technology, such as building in encryption, firewalls, and otherdefensive software in order to limit unauthorized access to transmitted information.
- Before allowing remote access to information networks (whether via Wi-Fi or physical means), for instance, from home or other computers, measures must be taken by the RR to guard against intrusion, such as the use of firewalls, routers, filters, encryption, and other means.

The CCO has authority to refuse approval or to limit usage of any/all proposed applications/devices proposed for use in branch offices.

13.13 Reports to Customers

Fortune recognizes that the practice of providing customers with consolidated financial account reporting has become increasingly common in the financial services industry. These reports represent communications with the public and the dissemination of these reports must comply with all applicable FINRA rules, federal securities laws and Firm policies and procedures.

The Firm understands that investor demand for this service has grown, however it cautions ICRRs to read, understand and abide by the limitations on the preparation and distribution of such reports.

The Firm defines the following categories of customer reports:

Type of Report	Description	Summary of Restrictions and Limitations
Consolidated Statements	Reports that offer a single document that combines information regarding most or all the customer's financial holdings including products sold through Fortune, held away from Fortune (i.e., advisory accounts,fixed annuities, etc.) and or held at multiple vendors (e.g. American Funds and Nationwide).	• Written approval of usage by the compliance department is required. • All required disclosures must be included in the document. • PDF copies of all such reports given to or shown to a client (in person, via email or regular mail)

Type of Report	Description	Summary of Restrictions and Limitations
		must be provided by the 15th of the month after it was provided. • Excel spreadsheet reports are generally prohibited.
Portfolio Reports	Summary of a client's portfolio holdings, possibly including historical rates of return, and in many cases including more than one account held among a household including products sold through Fortune, held away from Fortune (i.e., advisory accounts, fixed annuities, etc.) and or held at multiple vendors (e.g. American Funds and Nationwide).	• Written approval of usage by the compliance department is required. • All required disclosures must be included in the document. • PDF copies of all such reports given to or shown to a client (in person, via email or regular mail) must be provided by the 15th of the month after it was provided. • Excel spreadsheet reports are generally prohibited.
Performance Reports	Reports of gross and net returns, absolute performance, and performance relative to customized benchmarks for a particular style or styles that includes products sold through Fortune, held away from Fortune (i.e., advisory accounts, fixed annuities, etc.) and or held at multiple vendors (e.g. American Funds and Nationwide).	• Written approval is required, as is separate independent investment advisory registration. • All required disclosures must be included in the document. • PDF copies of all such reports given to or shown to a client (in person, via email or regular mail) must be provided by the 15th of the month after it was provided. • Excel spreadsheet reports are prohibited. • Note: The Firm does NOT generally approve requests to produce and distribute performance reports.

NOTE: Information requested by estate attorneys, administrators or executors are not consolidated statements and should be provided to Compliance under the Third-Party Information Request policy and procedure.

13.13.1.1 CONSOLIDATED REPORTS

The usage of consolidated reports must be approved before use. New ICRRs must get approval of current providers at time of onboarding.

Fortune generally requires the following to grant approval:

- Usage of a well-known vendor (Orion, DST, Albridge, eMoney, Money Guide Pro, Morningstar etc.) Please note that the Firm is not recommending any specific provider; the listed products are only examples.
  - Unknown vendors will require a due diligence review.
  - Use of reporting functions from Customer Relationship Management (CRM) program are generally not allowed but may be approved on a case-by-case basis.
- Data must be provided by the vendor through a data feed and cannot be altered.
- The vendor must be able to accommodate all disclosures and any updates to those disclosures.
- PDF copies of all reports must be maintained. The ability to re-generate any reports is no longer allowed.

The Firm prohibits the use of letterhead or stationery that presents the misconception that the Firm has produced or verified all the data, including the valuation of assets held away.

- Reports should be constructed and provided in such a manner that neither customers nor third parties with whom the customer interacts (*e.g.*, banks, mortgage companies, other broker-dealers) are likely to be confused or misled as to the nature of the information presented or mistake these documents for official account statements regarding the reported assets.
- Reports must clearly delineate between information regarding assets sold or held through Fortune on behalf of the customer, which are included on the firm's books and records, and other external accounts or assets.
- When the Firm is unable to test or otherwise validate data for non-held assets, including valuation information, it must clearly and prominently disclose that the information provided for those assets is unverified.
- In addition, to the extent a consolidated report contains information regarding financial products that are outside a registered representative's area of proficiency, representatives must discuss and present these financial products in a manner that does not mislead customers as to the scope of the representative's knowledge regarding these investments.
- ICRRs should not alter or write on these reports after they are generated
- If you manually alter or add information or notes to a report while with a client, a copy of the marked-up report must be provided to Compliance.
- To control and monitor the distribution of Consolidated Statements, the Firm's CCO will review and approve consolidated report templates for compliance with regulatory requirements.

Fortune generally prohibits the use of Excel (or similar program) spreadsheets to create any consolidated, portfolio or performance reports. A request for an exception to this prohibition may be granted on a case-by-case basis if the following conditions are met:

- The request is for single use or annually for a single client.
- All disclosures are provided on the spreadsheet.
- All backup documentation and calculations are provided and accurate.
- The report will be mailed by Fortune Financial Services to the client.

13.13.1.2 Ongoing Audits and Reviews

- PDF copies of all consolidated statements must be provided to Compliance monthly by the 15th of the month following usage with the client.
- On a random basis the CCO will establish audits and reviews of the approved consolidated statements.
  - These reviews may include requirements to provide statements.

13.13.1.3 Customer Addresses

The Firm prohibits the distribution of consolidated statements to any address other than the same address to which qualified custodial statements are sent.

13.13.1.4 Assets Held Away

The Firm requires the representative to present all information that will allow it to verify the valuations used in consolidated statements. The Firm reserves the right to eliminate assets in the consolidated report when it cannot verify their existence or cannot validate the valuations.

13.13.1.5 Source Documents

- Among the disclosures provided on consolidated statements, customers must be advised to review and maintain the original source documents that are integrated into the consolidated report, such as the statements for individual accounts held away from the broker-dealer.

- Source documents may contain notices, disclosures, and other information important to the customer, and may also serve as a reference should questions arise regarding the accuracy of the information in the consolidated report.

13.13.1.6 Report Design

The design and formatting of consolidated reports is important for ensuring information is clearly communicated. In addition to the requirements outlined above, the Firm requires the representative to include, when applicable, the following disclosures:

- that the consolidated report is provided for informational purposes and as a courtesy to the customer, and may include assets that the firm does not hold on behalf of the customer and which are not included on the firm's books and records
- a statement clearly distinguishing between assets held through Fortune Financial and those held away, or categories of assets held by each entity included in the consolidated report (e.g., Fortune Annuities and TD Ameritrade Advisory Assets)
- the names of the entities providing the source data or holding the assets, their relationship with each other (*e.g.*, parent, subsidiary, or affiliated organization) and their respective functions (introducing/carrying brokeragefirms, fund distributor, banking/insurance product providers, etc.)
- customers must be advised to review and maintain the original source documents that are integrated into the consolidated report, such as the statements for individual accounts held away from the broker-dealer.
- source documents may contain notices, disclosures, and other information important to the customer, and may also serve as a reference should questions arise regarding the accuracy of the information in the consolidated report.
- if the data is not able to be validated for non-held assets, the reports must clearly and prominently disclose that the information for those assets is unverified; and
- if the consolidated report provides aggregate values for several different assets, an explanation of how the aggregated values of the different types of assets were arithmetically derived from separate asset totals.
- the customer's account number and contact information for customer service at each entity included in the consolidated report
- identify that assets held away may not be covered by SIPC

13.13.1.7 Disclosures and Attestations

To help ensure that a customer is apprised of the nature of the consolidated reporting process, and to ensure delivery of any disclosures or other pertinent information, the Firm may require the customer's signed acknowledgement that he or she has been provided with the relevant disclosures and understands the nature and limitations of the consolidated reporting process. These disclosures may, for example, be included with applicable communications regarding privacy protections.

13.13.2 Portfolio Reports

Portfolio Reports (reports of a customer's investment advisory positions) are approved in connection with the approval of an outside investment adviser. Representatives are advised that they are separately accountable to their regulator (SEC or state(s)) for accuracy of the portfolio reports they distribute to their IA customers. Nonetheless:

- The CCO requires a copy of the format or template in connection with the initial approval of an investment adviser as an OBA.
- All assets sold or held through Fortune Financial Services must be clearly labeled as such.
- Identify that advisory assets held away from Fortune may not be covered by SIPC.
- All other disclosures required for assets held at Fortune as listed in section 13.13.1.6 are provided.
- Upon any change (change of custodian, style, contents, letterhead, or any other such change), the CCO requires the representative to resubmit the portfolio report template for re-approval.

- On an ongoing basis, the representative should be prepared and must comply with any request related to oversight of the portfolio report.

13.13.3 Performance Reporting

Performance reporting is highly regulated by the SEC, and therefore will rarely be approved by the Firm. Representatives requesting approval to distribute performance reports should be prepared to demonstrate their acumen and readiness for the high standards required for such reporting.

14 APPROVED INVESTMENT PRODUCTS

Products substantially different from those described herein may not be offered or sold by Registered Representatives without the pre-approval of the designated Principal. No new product may be introduced to the marketplace before it has been thoroughly vetted from a regulatory as well as a business perspective. To the extent that a new product is complex, the CCO will ensure that ICRRs undertake steps to fully understand the product prior to recommending it to any investor. Further, the CCO may, at her discretion, implement specific training requirements related to new products, to ensure that the sales force is adequately informed of the features of a product, including the risks, prior to any recommendation of that product.

To follow are guidelines Company personnel must follow in this regard.

Request. All Company personnel who would like to offer products not currently offered by the Firm must request such in writing to the CCO.

Consider. The CCO's analysis prior to approval may include the following:

- Is the product new to the marketplace or the firm?
- Is the firm proposing to sell a product to retail investors that it has previously only sold to institutional investors?
- Will the product be offered by Representatives who have not previously sold the product?
- Does the product involve material modifications to an existing product, whether risk to the customer, product structure, or fees and costs?
- Does the product require material operational or system changes?
  Is the product an existing product that is being offered in a new geographic region, in a new currency, or to a new type of customer?
- Would the product involve a new or significant change in sales practices?
- Does the product raise conflict that have not previously been identified and addressed?

In addition, the designated Principal should determine if transacting in the new product would require regulatory approval.

Analyze. Once a proposed product is determined to be "new" based on the answers to these questions, the CCO and/or his designees must then attempt to clearly understand the ramifications of offering such products. Questions relating to the characteristics of the product, suitability considerations, sales and marketing issues, legal and compliance risks, training requirements and operations/order systems capacity must be asked and answered for a full vetting of the product. The firm may rely on the guidance offered in NTM 05-26 when undertaking this product analysis and may use the form entitled, "New Product Approval" to prompt valuable questions in the vetting process.

Approve/Implement. Should a new product be approved, CCO will make official this approval in writing, will inform employees, as necessary, and will provide for all necessary training of supervisory, sales and operations personnel.

Importantly, written procedures will be included in this Manual to describe specific policies relating to the new product, such as suitability thresholds or documentation requirements outside the scope of the Firm's universal sales practices.

The designated Principal must ensure that records of new product requests, consideration, vetting, and approval are maintained in dedicated files. He or she should also monitor, or designate someone to monitor, activities in the new product in the months following approval to assess performance and other issues. Issues to consider should include: customer complaints; additional training needs; adherence to compliance parameters; suitability; and ongoing effectiveness of any imposed limitations or conditions. Corrective action should be taken when deemed necessary.

14.1 Mutual Funds

Mutual funds, for purposes of these policies and procedures, refer to open-end investment companies. The offering and distribution of shares in mutual funds by Fortune are subject to the terms and conditions of the mutual fund dealer agreement between the principal underwriter of the respective mutual fund and the Firm, as selling broker-dealer. These dealer agreements help ensure the integrity of mutual fund sales and distribution, and thus protect the customer. The CCO or other designated person must review all mutual fund dealer agreements to ensure that they adequately delineate the respective responsibilities of the parties in a manner reasonably designed to help ensure that Fortune's mutual fund sales and distribution process protects investors.

The following procedures relate generally to mutual funds sales. Compliance is responsible for reviewing mutual fund transactions on a regular and ongoing basis in order to ensure that these general procedures are followed by ICRRs.

14.1.1 Suitability

FINRA Rules require that ICRRs inquire as to the suitability of a mutual funds' transaction for a customer. The Representative should consider the customer's tax status, financial situation, and investment objectives before makingrecommendations on particular funds. If the customer is making a selection of funds, the Representative must ensurethat each fund, as well as all the funds in the selection, is suitable, and that the proportions are also suitable.

14.1.2 Investment Company Correspondence/Disclosure of Fees and Expenses

When reviewing Correspondence related to mutual funds, the Designated Principal will watch for the following and investigate further any perceived violations:

- Selling dividends;
- Representing a back-end load fund as "no-load;"
- Representing a fund with an asset-based sales or service fee exceeding .25 of 1% as "no-load";
- Representations regarding yield and performance;
- Recommendations that include switching or appear to recommend unsuitable diversification among funds;
- Dealer-use-only material;
- Excerpts out of context from the prospectus that may be misleading; and/or
- Required disclosures about the fund's investment profile, charges, hedging strategy, tax consequences and other pertinent factors.

The ICRR must provide the customer with a current prospectus of all mutual funds under consideration. A copy of the fund prospectus will be sent to each purchaser of a mutual fund.

Materials provided by fund distributors for dealer use only may not be provided to customers and must not be displayed in a public area such as a reception area. Dealer-use-only material is often provided as educational material for dealers and their Representatives. All dealer-use-only material will be marked as such with limited distribution.

In accordance with recent FINRA interpretations it is each ICRR's responsibility to make sure that the customer is aware of ALL fees and expenses associated with a particular investment product, particularly mutual funds. It is inappropriate to use sales presentations or material that give the impression that certain sales charges or "loads" do not apply without a full and fair disclosure of fee and expense requirements that do apply. For example, the term "no load" by itself, with no disclosure of "trails" or other fees, would be inappropriate. The customer must be advised to review the prospectus and keep it for reference.

14.1.3 Sales Charges: Volume Discounts and NAV Sales

Mutual funds may offer discounts, called **breakpoints**, on the front-end sales charge if an investor makes a large purchase, commits to regularly purchasing the mutual fund's shares, or already holds other mutual funds offered by the same fund family. To determine the appropriate discounts, an investor is often allowed to aggregate his purchases with holdings of other family members. A breakpoint can be reached:

- In a single purchase of Class A shares,
- Over a period of 13 months, with a Letter of Intent, or
- From the time of the initial purchase, under Rights of Accumulation.

Class A shares usually impose a front-end sales charge; Class B and C shares normally do not. Large purchases of Class A shares are normally subject to breakpoint discounts *(see discussion of share classes, below).*

Nearly all open-end funds at the time of initial purchase permit a purchaser to execute a "**Letter of Intent**" stretching usually over a 13-month period. This letter of intent, while not obligating the purchaser to make additional commitments, nevertheless permits them to buy additional shares of the same fund(s) within 13 months at the reduced sales charge. Letters of intent vary widely between fund managements as to the offering price paid on each purchase, the amount of the breakpoint and methods of adjusting if the *complete* purchase is not made. In addition, many investment companies permit letters of intent to be backdated to capture previous transactions for the purposes of fulfilling the LOI.

Aggregating purchases of a fund or family of funds by one investor (and sometimes family-related purchases) may qualify for **rights of accumulation**. In these cases, a lower sales charge may apply based on the total dollar amount invested. Some funds permit members of immediate families to group their orders to achieve breakpoints or to complete letters of intent. General provisions of this grouping are found in the prospectus of the various funds and must be consulted prior to making an offering to see if grouping is permitted and to what extent.

In addition, some funds allow for purchases at net asset value (**NAV**) when:

- The amount of the purchase or aggregated purchases under a Letter of Intent or Rights of Accumulation exceed a specific amount, generally $1 million;
- The client is reinstating previously redeemed shares of the same fund;
- The Representative is purchasing shares for himself or a direct family member;
- The transaction is being made in a fee-based account.

The Representative must ensure that a customer pays the appropriate sales charge and receives the appropriate available discount, whether by reaching breakpoints on a single purchase, under LOIs or via rights of accumulation, or by

qualifying for purchases at NAV. To do this, Representatives must understand the terms of offerings and reinstatements, as well as the entire scope of the customer's mutual fund investments. Representatives are required to gather complete information, including values in the customer's accounts—and in related and linked accounts-- held both directly with the investment company and at other brokerage firms, as well as the dollar size of any pending transactions, the dollar size of anticipated transactions, and amounts previously invested in the specific fund and other related funds, valued as specified in the prospectus.

Before recommending a share class, Representatives must consider the customer's anticipated holding period and all costs associated with each share class including front-end sales charges, annual expenses, and contingent deferred salescharges (CDSC), which are described in further detail below. The Representative must be sure that customers making large purchases fully understand breakpoints and the implications of buying "B" or "C" shares rather than "A" shares.
Class A shares typically charge a front-end sales charge and also may be subject to an asset-based sales charge, but it generally is lower than the asset-based sales charge imposed by Class B or Class C shares. Class B and C shares typically do not charge a front-end sales charge, but their asset-based sales charges are typically higher, and they normally impose a Contingent Deferred Sales Charge (CDSC), paid by the investor when s/he sells the shares. Therefore, even though investors do not pay a front-end sales charge for Class B or Class C shares, the potential CDSC's and the higher ongoing fees significantly affect the return on mutual fund investments, particularly at higher dollar levels.

The Registered Representative, when in doubt about a customer's suitability to purchase "B" or "C" shares or the customer's foregoing breakpoint advantages, should consult Compliance for review and approval of transactions with the customer. In addition, FINRA offers an online resource for comparing the expenses of exchange-listed mutual funds, called "FINRA Fund Analyzer." (https://tools.finra.org/fund_analyzer/) Representatives are encouraged to make use of this tool and may advise customers to consider using the analyzer.

Records of transactions should include notes on discussions with the customer about share classes and discounts, etc., especially if the customer elects to purchase Class B or C shares instead of A shares. Customers should always be made aware of available discounts. Mutual fund purchase records must indicate rights of accumulation if available and the customer's desire to aggregate purchases to qualify for a lower sales charge. Representatives must review the prospectus and advise clients if the LOI option is available and would benefit the client. The mutual fund forms should indicate if the customer will execute a letter of intent. In addition, Representatives must ensure that customers who are taking advantage of a reinstatement privilege that allows for a waived or reduced sales charge are informed of these options.

A customer must always be informed of the next available quantity discount breakpoint at which the sales charge is reduced. Should a customer refuse to take advantage of an available breakpoint, the Representative should make note of such refusal in the customer's file. When executing each "A" share purchase, Registered Representatives must complete the Breakpoint Calculation section on the Mutual Fund Disclosure Form. These forms are designed to assist the RR in gathering the information necessary to assure delivery of available breakpoints. Completed forms must be maintained in the customer's file for future reference and/or Principal review.

Selling mutual fund shares just below the breakpoint to receive the higher sales charge is prohibited. Such sales can be a serious violation and have been the subject of strong penalties imposed by the SEC and FINRA. Therefore, where a customer is purchasing funds close to a breakpoint, it is incumbent on each Registered Representative to explain where the breakpoint takes place and how additional money could be saved and/or additional shares could be purchased with a smaller sales charge.

Where the amount of money involved would reach a breakpoint if only one fund were purchased (rather than a few funds), this must be pointed out even if more than one fund were recommended. In this way the customer may then weigh the advantages of the reduced sales charge versus that of diversification among funds.

With respect to sales at or just above the breakpoint, the Registered Representative should determine that the fund accepts dollar orders or orders for fractional numbers of shares. Care must be taken to ensure that the fund does not automatically convert a dollar order to an order for a specific full number of shares, which could result in a purchase price below the breakpoint. It is the Registered Representative's responsibility to review his or her copy of each customer confirmation for a mutual fund transaction involving a breakpoint to make certain that the customer received the benefit of the breakpoint. Any problems or discrepancies must be brought to the immediate attention of Compliance.

Recent FINRA pronouncements indicate that sales under a genuine "asset allocation" program offered by the Firm in which the size of the purchase is determined by asset-based investment strategies will not be automatically labeled as "breakpoint" sales, even though the customer might have gotten a lower commission if he/she had a greater concentration of assets in a particular fund or funds. The record must show that the customer was informed of the options and chose not to take advantage of the "breakpoint.”

NOTE: Investment companies with which Fortune does business have expressly assumed the obligation to ensure that the Firm’s customers are receiving all available breakpoints. However, it is ultimately the Firm’s responsibility to ensure that its clients are not overcharged for mutual fund purchases. In summary, it is imperative that Registered Representatives comply with these breakpoint procedures.

Supervisory Review. Compliance must review sufficient mutual fund sales documentation to ensure that the customer is charged correct sales loads and is receiving the most appropriate sales charge/breakpoint and that sufficient information has been gathered to evaluate this. The Principal’s reviews may include, if necessary, contacting the mutual fund companies to verify a customer’s holdings and family holdings. All accounts reviewed by the Principal will include evidence of review (initials on reports or notes generated). If the Principal determines that a breakpoint or waiver of the sales charges has not been applied but is applicable, the transaction will be processed at the appropriate sales charge unless there is sufficient documentation to support the trade as is.

The CCO will make changes to these procedures if deemed necessary to reduce errors in sales charges applied. The Designated Principal will maintain records of such procedure changes.

Refunds to Customers. The Firm must make prompt refunds to those customers who were identified during a Principal’s review of trade activity (or during a self-assessment process) as having been overcharged, as well as other customers who come forward seeking refunds on their own and are owed a refund based on the Firm's assessment. Refunds must be made in accordance with the following FINRA guidelines:

- Refunds should be made in cash sent to the customer, or through cash deposits made to an existing customer's account with notice to that customer (in some cases, within two days of determining the proper refund amount)
- Refunds should be equal to the amount of the sales load overcharge plus interest at a simple rate of at least 2.5%, for overcharges that occurred between January 1, 2001, and the present. For transactions that took place prior to that time, members should use a comparable interest rate
- Refunds should be made regardless of the performance of the mutual fund purchased by the customer

The Designated Principal must review records of refunds and refund requests to ensure proper processing and that these guidelines have been met, when warranted. This Principal must also ensure proper record keeping of all refund-related documentation in accordance with SEC Books and Records Rules (records should be maintained in an easily accessible place for the first two years). In addition, the FINOP must ensure that Net Capital Computations include refunds payable as liabilities, and that funds necessary to refund customers are segregated correctly and in timely fashion, in accordance with the Customer Protection Rule (see NTM 03-47 for guidance).

14.1.4 "Trails" and Other Contingent Deferred Charges

FINRA rules carefully regulate the amount of sales and other charges that can be collected by the Firm and its Registered Representatives from the sale of mutual fund shares. The rules define a "sales charge" to include all charges or fees that are paid to finance sales or sales promotion expenses, including front-end, deferred and asset-based sales charges, excluding charges and fees for ministerial, record keeping or administrative activities and investment management fees. A “deferred sales charge” is any amount properly chargeable to sales or promotional expenses that is paid by a shareholder after purchase but before or upon redemption. Class B and C shares normally carry a Contingent Deferred Sales Charge (“CDSC”): while the investor holds the shares, the CDSC normally declines and eventually is eliminated after a certain number of years. After the CDSC is eliminated, Class B and some C shares often "convert" into Class A shares. When they convert, they will be subject to the same, lower asset-based sales charge as the Class A shares. Representatives may no longer sell securities or funds that carry a CSDC unless the CSDC is calculated so that shares not subject to the CSDC are redeemed first and other shares are then redeemed in the order purchased (FIFO redemption).

The rules also define "service fees" as payments by an investment company for personal service and/or the maintenance of investor accounts. These fees, known generally as "trails" are paid directly by the issuer to the broker-dealer as a percentage of average annual net assets of the particular investment. FINRA rules presently limit the amount of "trails" to .25 of 1% of average annual net asset value.

FINRA personnel carefully review the prospectus and selling literature of each fund (and any updates or amendments) prior to use to make sure that the rules are being observed and proper disclosures are made. The Firm and its Registered Representatives are generally entitled to rely on such pre-cleared material for an accurate description of all sales and other charges.

Registered Representatives and other persons involved in the sale of mutual fund shares should exercise extreme care in the use of the term "no load,” especially where there are "trails" involved. If the total charges (including sales charges and "trails") exceed .25 of 1% of net assets per annum the investment cannot be described as "no load" under FINRA rules.

14.1.5 Changes in BD of Record

When the Firm is named as BD of record in mutual fund accounts held directly with the product issuer (“check and application,” “application way,” or “direct application” accounts), Fortune (or ICRR) generally receives fees or commissions resulting from the customer’s transactions in the account. In these situations, the use of negative response letters to change the BD of record is ***NOT*** permitted. The Firm (and its RR’s) must seek a customer’s affirmative consent prior to changing the BD of record in the customer’s application way account. The designated Principal, in his or her review of customer account documentation, must note the attempted use of negative response letters by RR’s and must immediately halt such use, require affirmative consent efforts, and consider disciplining personnel if they are found to have deliberately defied this procedure. Records of customer consent to changes in BD of record are maintained with customer account documentation.

14.1.6 Repurchases and Redemptions

Mutual funds may be redeemed by tendering shares directly to the issuer (with or without a charge as set forth in the prospectus) in exchange for the net asset value (NAV) per share. The Firm may also arrange for a sale by the customer to an underwriter or the issuer at the quoted bid price plus a disclosed sales charge, as long as the availability of a direct redemption is also disclosed. If a customer requests liquidation of an outside open-end fund held by the fund, the Registered Representative must obtain the customer's signed letter of authorization. Required signature guarantees must be obtained from operations, if required, before forwarding the letter to the fund.

Occasionally there will be a "repurchase" transaction in which the issuer or an underwriter voluntarily repurchases shares from the investor or from a dealer acting as principal. Such "repurchase" transactions cannot be undertaken unless the investor or dealer (if it is not a member of the selling group) is the record owner of the shares tendered for repurchase.

14.1.7 Switching

Switching (selling one fund to purchase another) requires a Designated Principal's review and approval. An exception to this rule is made in cases where funds share the same management and there is only a nominal charge for the exchange. ICRRs, prior to recommending or accommodating a switch in a customer's account, must do the following:

- Verify that the change of funds is suitable in light of the customer's financial circumstances and consistent with the customer's stated investment objectives by assessing the customer's current and past trade activity, fund objectives, and investment preferences, and comparing the features of the proposed product to those of the existing investment to determine whether the customer will benefit from the switch (if the ICRR determines that switch may disadvantage the customer, the switch must not be accommodated)
- Try to minimize the customer's cost by switching within the same family of funds
- Apprise the customer that such switch may result in shrinkage of the customer's capital through additional sales charges and the possibility of capital gains tax liability
- Obtain a Switch Letter signed by the customer

In the Switch Letter the customer acknowledges his understanding of the consequences of the switch. The letter will be retained with the customer file. The Designated Principal will ensure switch letters are obtained for switch transactions and that switches are justified prior to approving any transactions involving switches and in periodic review of customer accounts.

After reviewing switch letters (or the lack thereof), current and past trade activity, fund objectives and investment preferences, if the Principal determines a switch is not in the best interest of the customer, the transaction will not be approved. In reviewing the customer account, if the Designated Principal determines that switches made in the customer's account were unjustified and/or costly, the customer will be notified, and additional information will be requested. If deemed appropriate, the customer will be provided with relief and disciplinary action will be taken against the account Registered Representative.

The Principal will maintain records of his or her review in a manner deemed acceptable by the CCO.

14.1.8 Selling Dividends

"Ex dividend" mutual funds reflect that a dividend has been announced. Section 2830 of FINRA Rules specifically prohibits the practice of recommending the purchase of mutual fund shares just prior to their going "ex dividend" unless there are specific, clearly described tax or other advantages to the purchaser. No Registered Representative shall

represent that any capital gains distributions are part of the income yield. No Registered Representative shall withhold placing a customer's order for any mutual fund so as to personally profit from such a withholding. If the Designated Principal notes any patterns of purchases just prior to funds going "ex dividend" he or she shall contact the Representative to ascertain that the customers understand the benefits and consequences of such purchases.

14.1.9 Selling Compensation

Pursuant to FINRA rules governing mutual funds sales practices, respective personnel must not:

- Favor or disfavor the shares of specific investment companies (or group of companies) on the basis of brokerage commissions received or expected from any source
- Sell the shares of, or act as an underwriter for, a fund that follows a policy of considering sales of shares of the fund as a factor in selecting broker-dealers to execute portfolio transactions
- Demand, require, or solicit brokerage commissions as a condition to the sale of mutual fund shares
- Demand or accept directed brokerage business in exchange for favoring the sale of such product
- Circulate information to personnel other than management as to the level of brokerage commissions received from a particular sponsor
- If underwriter, suggest, encourage, or sponsor any sales incentive campaigns to other firms that are based on orfinanced by brokerage commissions directed or arranged by the Firm
- Provide incentive or additional compensation (bonuses, preferred compensation lists, etc.) for the sale of specific investment company shares to selected Registered Representatives, Branch Managers, or other sales personnel
- Establish "recommended" or "preferred" lists of specific products on the basis of brokerage commissions received or expected
- Allow sales personnel or Branch Managers to share in commissions received by the Firm from portfolio transactions of investment company shares that are sold by the Firm, if such commissions are directed by or identified with such investment company
- Use the prospect of sales of such product as a means of negotiating favorable concessions on price or commissions from portfolio transactions

Company personnel should be aware of the SEC's Rule 12b1-1, amended to prohibit investment companies (funds) from compensating Fortune for promoting or selling fund shares by directing brokerage transactions to it and from indirectly compensating selling brokers, such as the Firm, by participation in step-out and similar arrangements in which the selling broker receives a portion of the commission. The ban includes any payment, including any commission, mark-up, mark-down, or other fee (or portion of another fee) received or to be received from the fund's portfolio transactions effected through the Firm. Company personnel aware of payment or receipt of any such compensation should alert their designated Principals, who must investigate and take corrective action, if required.

In addition, all cash or non-cash compensation or reimbursements to be provided directly or indirectly by sponsors to the Firm or to select Representatives in connection with the sale of such product shall be paid or provided directly to the Firm and not to the Representatives. These payments or benefits shall be treated as cash compensation subject to full prospectus disclosure and to the limitations described above. If special compensation arrangements are made with individual dealers, which arrangements are not generally available to all dealers, the arrangements and the identities of the dealers must also be disclosed in the current prospectus.

14.1.10 Late Trading

All mutual funds sales are made directly with the fund company and Fortune Financial Services has no access to trading, trade tickets or a trading desk. Distribution of shares and custody are direct responsibilities of the fund company.

Mutual fund shares must be redeemed and sold at a price based on the net asset value (NAV) of the fund calculated after the receipt of orders—that is, after the close of trading. For this reason, mutual fund orders should not be accepted after the market closing; any such orders accepted must be executed the following day. Company personnel must not effect, or facilitate after-close mutual fund purchases or redemptions at the same day's NAV. The Trade Desk Supervisor, if applicable, or the Mutual Funds Principal must review time stamps on orders tickets in order to detect and prevent deliberate late trading. Late trades must be cancelled or corrected. The designated Principal and each respective Registered Representative should attempt to detect repeated orders placed by customers at or just prior to the market close: such order timing may be a deliberate attempt to have trades executed at that day's NAV, calculated prior to their orders. If such patterns are suspected, the Mutual Funds Supervisor must be informed and take action to prevent further violations. The designated Principal, in his/her regular review of order activity, must ensure compliance with these procedures. Occasional orders executed after market close will be tolerated only in the event such orders are not deemed to be late trades placed for advantage.

Automated trading systems must not be manipulated to accept late trades after market closing: all Company personnel, including IT and operations staff, must inform the Trade Desk Supervisor or CCO if such manipulation is suspected or discovered. Also, it is the obligation of the Firm to not undertake, effect or facilitate "market timing transactions" - mutual fund trades that occur when the purchaser or seller believes that the fund's NAV does not fully reflect the value of fund's holdings. The Mutual Funds Principal should educate personnel as to their obligation to prevent the Firm and its customers from any trading activity that might circumvent counteractive measures described by fund companies in prospectuses and SAIs.

14.2 Variable Products

A variable annuity is an insurance contract that is subject to regulation under state insurance and securities laws. Although variable annuities offer investment features similar in many respects to mutual funds, a typical variable annuity offers three basic features not commonly found in mutual funds:

- tax deferred treatment of earnings;
- a death benefit; and
- annuity payout options that can provide guaranteed income for life.

A customer's premium payments to purchase a variable annuity are allocated to underlying investment portfolios, often termed sub accounts. The variable annuity contract may also include a guaranteed fixed interest sub account that is part of the general account of the insurer. The general account is composed of the assets of the insurance company issuing the contract. The value of the underlying sub accounts that are not guaranteed will fluctuate in response to market changes and other factors. Because the contract owners assume these investment risks, variable annuities are securities and generally must be registered under the Securities Act of 1933. ***NOTE: Equity-indexed annuities are discussed in the section, below.***

Underlying sub-accounts that are not guaranteed are funded by a separate account of a life insurance company that, absent an exemption, is required to be registered as an investment company under the Investment Company Act of 1940. Variable annuities assess various fees including fees related to insurance features, for example, lifetime annuitization and the death benefit. The fees are typically deducted from customer assets in the separate account.

Typically, variable annuities are designed to be long term investments for retirement. Withdrawals before a customer reaches the age of 59 1/2 are generally subject to a 10 percent penalty under the Internal Revenue Code. In addition, many variable annuities assess surrender charges for withdrawals within a specified time period after purchase. Generally, variable annuities have two phases: the "accumulation" phase when customer contributions are allocated among the underlying investment options and earnings accumulate; and the "distribution" phase when the customer withdraws money, typically as a lump sum or through various annuity payment options.

FINRA rules and pronouncements state that when recommending variable annuities or variable life insurance, the member and its Registered Representatives are required to make reasonable efforts to obtain information concerning the customer's financial and tax status, investment objectives, and such information used or considered reasonable in making recommendations to the customer. The myriad features of variable insurance products make the suitability analysis required under FINRA rules particularly complex.

Retention of this customer information can be made in conjunction with the maintenance of basic customer account information that is required in FINRA Rule 3110. The Registered Representative should forward the completed application and any other information provided by the customer to a registered principal for review. The registered principal should compare the information in the account application with other relevant information sources, e.g., an account information form, to check for apparent accuracy and consistency prior to approving the transaction.

All contracts require the approval signature of the designated Principal. Similar approval is required for liquidations and transfers. Recent variable product data is available for inspection by regulators and others.

In the sub sections to follow, ICRR’s are reminded of the many factors that must be considered in each variable product transaction. These sub-sections must be read carefully, and the guidelines and requirements therein must be followed. In summary, each Representative must attempt to confirm the following when offering variable products to their customers.

- The customer understands the type of product they are purchasing, including fees, charges, and risks, such asloss of principal
- The customer has signed a variable products disclosure form and received a current prospectus for the product being offered
- The customer’s investment objective is long-term and that he/she would not have a need to liquidate the contract in the short-term to meet income or expense needs
- The customer’s age does not exceed the limitations allowed by the contract issuer and that elderly individuals understand the long-term nature of the contract and the risks involved
- The customer does not have a physical or mental disability that might hinder their ability to assess the risks associated with these contracts and that such disabilities do not disqualify them for the insurance benefits
- The customer’s needs and objectives include a need for insurance as provided under these contracts

The Registered Representative should forward documents, if applicable and any additional information provided by the customer to the designated Principal for review. The designated Principal will review each application and the related documentation to ensure they are complete. Incomplete applications will be returned to the Registered Representative for more information.

14.2.1 Product Identification

To assure that customers of Fortune understand what security is being discussed, all communications with the public should clearly describe the product as either a variable life insurance product or variable annuity, as applicable. Materials may use proprietary names in addition to this description. In cases where the proprietary name includes a description of the type of security being offered, there is no requirement to include a generalized description.

Any communication discussing the tax-deferral benefits of variable life insurance should not obscure or diminish the importance of the life insurance features of the product. Any variable life insurance communication that overemphasizes the investment aspects of the policy or potential performance of the sub-accounts may be misleading. Considering the significant differences between mutual funds and variable products, the presentation should not represent or imply that the product being offered, or its underlying account is a mutual fund.

14.2.2 Suitability

FINRA sets forth specific suitability requirements under Rule 2320, applicable to the sale of variable product. The Firm requires that the designated Principal review sales of variable product by Registered Representatives for compliance with these guidelines. They include:

- Whether the customer represents that his or her life insurance needs have been adequately met
- Whether the customer has an express preference for an investment other than an insurance product
- Whether the customer adequately appreciates how much of the purchase payment or premium is allocated to cover insurance or other costs
- The customer's ability to understand the complexity of variable product generally
- The customer's willingness to invest a set amount on a yearly basis
- The customer's need for liquidity and short-term investment
- The customer's immediate need for retirement income
- The customer's investment sophistication
- Whether the customer is able to monitor the investment experience of the separate account

Fortune requires that its Registered Representatives document this type of information Client Information Form and the New Transaction Application and submit or reference it with every variable life insurance application. The Registered Representative should forward the completed application and any other information provided by the customer to the designated Principal for review. This review should verify that the recommendation of both the policy and the sub-account allocation is consistent with the customer's investment objectives and risk tolerance.

For each specific variable product offered, the Firm follows guidelines established by the respective product sponsor, determining limitations and parameters on transactions with customers. These limitations may include maximum age or percentage of net worth or household income, for instance, and are designed to assist in the review of variable life insurance affordability and excessive amounts of coverage. These guidelines are included in Fortune's contract with each product sponsor and must not be violated. Registered Representatives should consult their supervisors to obtain this information on a current basis. If parameters are exceeded, Registered Representatives must submit additional supporting documentation and a written explanation to the designated Principal. If acceptable to the Principal and the sponsor, such exceptions may warrant extra supervision and review, as determined by the designated Principal.

Registered Representatives should not recommend that a customer finance a variable life insurance policy from the value of another life insurance policy or annuity, such as through the use of loans or cash values, unless the transaction

is otherwise suitable for the customer. Such financing raises the risk that the required premium for the new variable life insurance policy will exceed the dividend stream or cash value of the original policy. When financing is recommended, Registered Representatives should disclose to the policy owner the potential consequences to both the existing and new policy. The Registered Representative must document the customer's informed consent to the financing. The form should include the customer's acknowledgment, the Registered Representative's signature, and the designated Principal's signature.

14.2.3 Disclosures in Communications with the Public

Company representatives should discuss all relevant facts with the customer, including liquidity issues such as potential surrender charges and the Internal Revenue Service penalty; fees, including mortality and expense charges, administrative charges, and investment advisory fees; any applicable state and local government premium taxes; and market risk.

To the extent practical, a current prospectus should be given to the customer when a variable annuity is recommended. Prospectus information about important factors, such as fees and expenses and the illiquidity of the product, should be discussed with the customer.

The Registered Representative should have a thorough knowledge of the specifications of each variable annuity that is recommended, including the death benefit, fees and expenses, sub-account choices, special features, withdrawal privileges, and tax treatment.

For registered investment companies (including variable contracts) representing investments in pools of securities, sales materials containing certain statements related to performance, investment objectives, experience, benefits, and risks, and/or fees must be reviewed and filed in accordance with Rule 2210 (see NTM 03-17 for specifics). Under FINRA Rule 2210, the designated Principal or designee must file with FINRA Advertising Regulation Department all variable contract advertisements and sales literature within 10 days of first use or publication. Appointed personnel are also required to file the format for hypothetical illustrations used in the promotion of variable life insurance policies, since these formats qualify as sales literature. The Firm requires that such material be pre-filed and that all advertisements and sales literature regarding variable life insurance are approved in writing by the designated Principal prior to use with the public.

"482 advertisements" are advertisements defined under SEC Rules 482 of the 33 Act that are not necessarily the statutory prospectuses required to be presented to potential investors in all investment company offerings, but that refer to such prospectuses. Contract prospectuses qualify as 482 advertisements yet may be accompanied by contract applications (that provide for investor allocation of purchase payments to specific underlying funds). 482 advertisements that contain performance data ***must include*** the following information:

- a statement that past performance does not guarantee future results
- a statement that current performance may be lower or higher than the performance data quoted
- a toll-free or collect telephone number or a website where an investor may obtain performance data current to the most recent month-end, unless the advertisement includes total return quotations current to the most recent month ended seven business days prior to the date of use.
- These advertisements must also include a statement that advises the investor to carefully consider each underlying fund's investment objectives, risks, and charges and expenses before investing; explains that the contract prospectus and each respective fund prospectus contain this and other information; identifies the source from which the investor may obtain a contract prospectus and the underlying fund prospectuses; and states that these prospectuses should be read carefully before investing.

All these disclosures—whether in print, electronically, or on TV/radio, must be presented prominently in accordance with the standards imposed under Rule 482, so as to not minimize their presentation (i.e., they must meet required type size, style, placement, and emphasis guidelines). The designated Principal must ensure that all advertisements used to promote variable product meet these requirements or be revised and re-field with FINRA.

FINRA 2211 provides interpretive guidance regarding communications with the public about variable life insurance and variable annuities. *It is important to note that these guidelines apply to not only communications with the public, but also to individualized communications such as personalized letters and computer-generated illustrations, whether printed or made available on screen.* The Firm's Representatives, in conducting sales of these products, must comply with the restrictions noted including those related to claims about guarantees, performance reporting, product comparisons, use of rankings, investment features and hypothetical illustrations of rates of return. In his or her review of documentation of sales activities, the designated Principal will make an effort to detect and halt non-compliant communications with the public.

When preparing hypothetical illustrations that are designed to depict the tax-deferral feature of variable annuities, the designated Principal must ensure that:

- illustrations designed to show the comparative tax benefits of variable annuities are based upon tax rate and investment return assumptions that are consistent, fair, and reasonable at all times while the communication isin use, and
- the tax rate assumptions in such illustrations are accurate in all respects as of both the date the material is prepared and throughout the period during which the material is in use.

Such illustrations must also fully and fairly disclose all underlying assumptions as well as the fact that changes in tax rates and tax treatment of investment earnings may impact the comparative results. The designated Principal must routinely review these marketing communications to ensure compliance with these guidelines.

Lack of liquidity, which may be caused by surrender charges or penalties for early withdrawal under the Internal Revenue Code, may make a variable annuity an unsuitable investment for customers who have short term investment objectives. Moreover, although a benefit of a variable annuity investment is that earnings accrue on a tax deferred basis, a minimum holding period is often necessary before the tax benefits are likely to outweigh the often-higher fees imposed on variable annuities relative to alternative investments, such as mutual funds.

The Registered Representative should inquire about whether the customer has a long-term investment objective and typically should recommend a variable annuity only if the answer to that question, with consideration of other product attributes, is affirmative. In general, the Registered Representative should make sure that the customer understands the effect of surrender charges on redemptions and that a withdrawal prior to the age of 59 1/2 could result in a withdrawal tax penalty. In addition, the Registered Representative should make sure that customers who are 59 1/2 or older are informed when surrender charges apply to withdrawals.

Some tax qualified retirement plans (e.g., 401(k) plans) provide customers with an option to make investment choices only among several variable annuities. Customers should be made aware that while these variable annuities provide most of the same benefits to investors as variable annuities offered outside of a tax qualified retirement plan, they do not provide any additional tax deferred treatment of earnings beyond the treatment provided by the tax qualified retirement plan itself. Registered Representatives recommending the purchase of variable annuities for any tax qualified retirement account (e.g., 401(k)plan, IRA) should disclose to the customer that the tax deferred accrual feature is provided by the tax qualified retirement plan and that the tax deferred accrual feature of the variable annuity is

unnecessary. The Registered Representative should recommend a variable annuity only when its other benefits such as lifetime income payments, family protection through the death benefit, and guaranteed fees, support the recommendation.

14.2.4 Switching and Replacement

The Firm, through its designated Principal, will review all sales of variable product to make sure that the customer is not being subjected to the practice of simply replacing the customer's existing variable policy or contract with a new one that does not materially improve the customer's existing position but generates a new sales commission for the Representative. ICRRs, prior to recommending or accommodating a switch of a customer's variable product, must do the following:

- Verify that the change of product is suitable in light of the customer's financial circumstances and consistent with the customer's stated investment objectives by assessing the customer's current and past replacement activity and investment objectives, and comparing the features of the proposed contract to those of the existing contract to determine whether the customer will benefit from the switch (if the RR determines that switch may disadvantage the customer, the switch must not be accommodated)
- Apprise the customer that such switch may result in shrinkage of the customer's capital through additional sales charge
- Complete a Variable Product Replacement Form

Representatives should not recommend the switching or replacement of an existing variable contract *unless* it is in the best interest of the customer because:

- the new contract offers the customer features not available in their existing contract
- the customer's investment objectives have changed and cannot be met by the existing contract
- the existing issuer is experiencing some type of difficulties, such as financial or regulatory, that could place the customer's contract at risk
- the customer no longer has the need for the insurance coverage afforded by the existing contract and wishes to switch to another type of investment vehicle
- the performance of the existing contract does not meet the customer's expectations

in some instances where the purchase of variable product is funded by a withdrawal from, or liquidation of, a similar product, a Replacement Form provided by the product sponsor or required by the State must be completed and submitted with the application for review. This Form should be completed in its entirety and signed by the customer and the Registered Representative.

The Replacement Form outlines the customer's understanding of the fees and charges related to the switch, including tax consequences, surrender charges and product costs. The customer must acknowledge that they understand these matters and the reason for the switch. The designated Principal during his review must determine, based on the information provided by the customer and his knowledge of the product features, that the switch is suitable for the customer.

The designated Principal during his review must determine, based on the information provided by the customer and his knowledge of the product features, that replacing the existing contract with a new contract is suitable for the customer. This review should also include a consideration of such matters as product enhancements and improvements, lower cost structures, and surrender charges. The Principal's review will be evidenced by his signature on the application and replacement form or in such manner as deemed acceptable by the CCO.

Registered Representatives whose clients have a particularly high rate of variable annuity replacements or rollovers may be subject to Special Supervision, at the discretion of the CCO or the immediate supervisor.

The Compliance Department shall generate a monthly variable annuity exchange report, listing the representative that conducts at least one exchange per month. These reports shall be combined in include quarterly and yearly reports to more accurately track the exchange made by a particular representative. These reports will be generated by the firm's Sales Log, the Jaccamo Transactions Log and information provided by electronic feeds. The Chief Compliance Officer or it's designee shall review the 1035 Exchange reports and have quarterly discussion with any representatives that are listed on the Log. This discussion shall include the rationale for making the exchange, financial situation of the client(s), other options considered, and the reason for choosing an annuity over another product or type of product. These discussions shall be documented within the firm's Annuity Exchange folders.

(A 1035 exchange refers to a section of the IRS code that allows for the non-taxable exchange of non- qualified funds from one insurance carrier to another. 1035 exchanges are not allowed for liquidations from annuity contracts to purchase life insurance contracts.)

14.2.5 Liquidity

Considering that variable life insurance and variable annuities frequently involve substantial charges and/or tax penalties for early withdrawals, the Firm should not make any representation or implication that these are short-term, liquid investments. Presentations regarding liquidity or ease of access to investment values must be balanced by clear language describing the negative impact of early redemption. With respect to variable life insurance, discussions of loans and withdrawals must explain their impact on cash values and death benefits.

14.2.6 Sales Charges; Promotional Payments

Effective April 1, 2000, FINRA eliminated specific maximum sales charge limitations in variable contracts and instead adopted a "reasonableness" standard on aggregate fees. The Firm has elected to follow for the time being the limits in effect prior to April 1, 2000, as "reasonable."

Representatives may not participate in the sale of a variable annuity where the "sales charges" exceed 8.5% of the total payments to be made thereon as of a date not later than the end of the twelfth or shorter contract year. Single payment charges may not exceed 8.5% of the first $25,000, 7.5% of the next $25,000 and 6.5% over $50,000. "Sales charges" are defined as all charges or fees that are paid to finance sales or sales promotion expenses, including front end, deferred and asset-based sales charges, but excluding charges and fees for ministerial, record keeping or administrative activities, investment management fees and mortality and expense charges. Where the sales charges are not stated separately in the prospectus the total deductions from purchase payments (excluding deductions for insurance premium payments and premium taxes) shall be treated as "sales charges."

14.2.7 Changes in BD of Record

When Fortune is named as BD of record in variable annuity accounts held directly with the product issuer ("check and application," "application way," or "direct application" accounts), the Firm (or RR) generally receives fees or commissions resulting from the customer's activity in the account. In these situations, the use of negative response letters to change the BD of record is NOT permitted. Fortune (and its ICRR's) must seek a customer's affirmative consent prior to changing the BD of record in the customer's application way VA account. The designated Principal, in his or her review of customer account documentation, must note the attempted use of negative response letters by RR's and must immediately halt such use, require affirmative consent efforts, and consider disciplining personnel if they are found to have deliberately defied this procedure. Records of customer consent to changes in BD of record should be maintained

with customer account documentation.

FINRA severely restricts promotional payments or consideration. Pursuant to such announced policies, respective personnel may not:

- Demand or accept directed brokerage business in exchange for favoring the sale of such product
- Use the prospect of sales of such product as a means of negotiating favorable concessions on price or commissions from portfolio transactions
- Provide incentive or additional compensation for the sale of specific variable product to selected Registered Representatives
- Establish “recommended” or “preferred” lists of such product on the basis of brokerage commissions received or expected
- Circulate information as to the level of brokerage commissions received from a particular sponsor

In addition, should cash or non-cash compensation or reimbursements be provided directly or indirectly by sponsors to the Firm or to selected Representatives in connection with the sale of variable product, such compensation or reimbursements shall be treated as cash compensation subject to full prospectus disclosure and to the limitations described above.

14.2.8 Contract Delivery

It is the duty of every registered representative to deliver a variable product contract to the contract owner no later than the law permits in each state where the contract was sold. The firm, however, expects each registered representative to deliver variable contracts as soon as reasonably possible, and without unnecessary delay.

Proof of timely delivery, in the form of a Contract Delivery Receipt, signed and dated by the contract owner, must be obtained, and kept in the customer file by the registered representative indefinitely. If the original is required to be forwarded by and to the insurance company, a photocopy will be deemed acceptable.

14.2.9 Twisting

Twisting is an illegal insurance sales practice, in which a sales agent misrepresents the features of a contract in order to induce the contract owner to replace his current contract, often to the disadvantage of the contract owner. Twisting is a form of sales abuse similar to churning, and as such is strictly prohibited. The Firm will monitor sales practices related to annuity sales through periodic reviews by a supervisor, evidenced by the supervisor's initials, including reviews and approvals of applications for annuity purchases, reviews of blotters of transactions, and periodic reviews of customer holdings.

14.2.10 Annuity Review Board

The firm has initiated an Annuity Review Board to review annuity sales that fall under specific parameters. This Board is composed of the Chief Compliance Officer (or its designee) and at least two other members of the Compliance team.

The Board shall meet whenever an annuity falls under the parameters set by the Compliance Department. It is expected that the Board will meet daily during regular business hours.

The firm shall maintain evidence of these reviews, along with copies of the documents related to the transaction(s)

The Board shall review these transactions and collectively reach a decision to approve, reject, or obtain additional information. The Board shall review all submitted documents, including by not limited to, required Compliance forms, The Customer Information Form, and any written or verbal communications received from the Financial Professional(s) involved with the transaction.

The Board shall reach a decision regarding the transaction within five business days of receipt of the transaction.

Failure to reach a collective decision shall cause the transaction and any supporting documents/narrative to be escalated to the CEO of Fortune Financial Services for further discussion.

For annuity transactions that will cause a client to hold a centration of 65% of their liquid assets in annuities, the representative shall provide the Annuity Review Board with a detailed breakdown of the client's annuity holdings, including the name of the annuity, the amount of the annuity, the amount subject to surrender penalties, and whether there are any optional living or death benefits attached to the annuity contracts. This information shall be reviewed to determine the level of liquidity that is available to the client.

14.3 UITs

Due Diligence: UITs are different from open-end mutual funds. The specific characteristics of Company-approved UITs must be reviewed by RR's and their supervisors. Typical risks associated with UITs are market risk, inflation risk and credit risk. RR's must review these risks are described in the product prospectuses and must ensure that customers understand the associated risks

14.4 Equity-Indexed Annuities

Equity-indexed annuities (EIAs) are financial instruments in which the issuer, usually an insurance company, guarantees a stated interest rate and some protection from loss of principal, and provides an opportunity to earn additional interest based on the performance of a securities market index. Additional features of EIAs are described in NTM 05-50: sales and supervisory personnel are encouraged to review this NTM. Some EIAs are not registered under the Securities Act of 1933 based on a determination that they are insurance products that fall within that statute's Section 3(a)(8) exemption and therefore are not considered to be securities; other EIAs are securities registered for public sale with the SEC.

Registered EIAs: When offering *registered* equity-indexed annuities, Company personnel are required to adhere to all applicable procedures and guidance contained in this Manual, including those concerning suitability, sales material, supervisory oversight, and order documentation. In general, many of the procedures described in the *Variable AnnuitiesSection*, above, apply to sales of registered EIAs. In addition, personnel are required to adhere to the general and specific standards in this NCI section.

Unregistered EIAs: While unregistered EIAs are not registered under the Securities Act and are therefore not technically "securities," the Firm requires that these products be treated as securities from a supervisory and regulatory perspective. The Firm adheres to the guidance in NTM 05-50, where FINRA suggests that all broker-dealers adopt special supervisory procedures for the sales of EIAs.

Approved Products: The Firm's designated Principal has approved the sale of certain registered and/or unregistered EIAs by complying with its "New Products" procedures and the due diligence guidelines described in this section. Registered Representatives should consult their supervisors to learn which such products are approved for sales. When Representatives are offering and selling unregistered EIAs as investments, they must do so as Registered Representatives of the Firm—and all activity must be supervised in accordance with these and other procedures. RR's may be permitted to conduct EIA sales outside the Firm, in accordance with the procedures outlined below.

The Firm requires that when such a product is offered outside the Firm—or when a ICRR recommends that a customer liquidate or surrender a registered security such as a mutual fund, variable annuity, or variable life for the purpose of funding the purchase of an unregistered EIA—the EIA must be treated as a security from a supervisory and regulatory perspective. Therefore, this outside activity is considered "selling away" and must conform to Rule 3270 standards, *as described under the Outside Business Activities and Private Securities Transactions ("Selling Away")" section, above.*

In that regard, ICRR's intending to conduct private securities transactions in EIAs must promptly notify the Firm in writing. If the ICRR intends to receive compensation from such outside transaction, s/he must receive prior written approval from the designated Principal *(see "Selling Away" section)* and the transaction must be supervised in accordance with the applicable procedures in this Manual.

ICRR's must not offer or sell EIAs as investments or switch customers from securities products into EIAs without informing Fortune in writing. Doing so is a violation of Firm policyand will be subject to disciplinary action.

The Firm adheres to the guidance in NTM 05-50, where FINRA suggests that all broker-dealers adopt special supervisory procedures for the sales of EIAs. To follow are certain specific guidelines regarding the sale of EIAs; these guidelines also apply to oversight of 'selling away' transactions

Sales and Marketing Materials: When presenting the advantages of EIAs, associated persons must balance promotional materials with disclosures of the corresponding risks and limitations of the product All correspondence and communications used in offering EIAs must be subject to the review and approval procedures outlined above in "Correspondence" and "Communications with the Public." All offering materials provided by issuers must be reviewed by the designated Principal prior to their distribution. The designated Principal must be careful in reviewing such materials, since many will have been drafted by insurance agents and will not meet FINRA regulatory standards (for instance, including exaggerated claims of principal protection and high returns). In the case of selling away transactions, where an EIA transaction is deemed a securities transaction, these principal review and approval requirements must be met.

Sales/Suitability: The many, varied features of EIAs make the suitability analysis required under FINRA Rules particularly complex. While EIAs may be appropriate for some retail investors, they are not suitable for all investors. For example, features that contribute to their complexity such as caps and participation rates associated with a particular product, minimum guarantees and fees and expenses, including surrender charges, premium bonuses, and multiple premium payment arrangements, must be considered in any suitability determination.

As with all investments, especially complex ones, it is imperative that ICRR's must attempt to establish the specific suitability of each customer transaction. When evaluating a transaction in an EIA for a customer, each Representative must attempt to confirm the following:

- The customer understands the type of product they are purchasing, including fees, charges, and risks, such asloss of principal
- The customer has received a prospectus (if available) or other offering materials and has acknowledged receipt
- The customer's investment objective is long-term, and s/he would not have a need to liquidate the contract in the short-term to meet income or expense needs
- The customer's age does not exceed the limitations allowed by the contract issuer and that elderly individuals understand the long-term nature of the contract and the risks involved
- The customer does not exhibit signs of a physical or mental disability that might hinder their ability to assess the risks associated with these contracts and that such disabilities do not disqualify them for the insurance benefits
- The customer's needs and objectives include a need for insurance as provided under these contracts

Representatives must explain the various features of EIAs with their customers. Answers to the following customer questions must be known and explained to the customer prior to finalizing sales in EIAs:

- What is the guaranteed minimum interest rate?
- What is a market index?
- How is an EIA's index-linked interest rate compounded?
- What is the participation rate?
- For how long is the participation rate guaranteed?

- Is there a minimum participation rate?
- Does the EIA being considered have a Spread/Margin/Asset fee and, if yes, how does it affect any gain that may be linked to the annuity?
- What charges, if any, are deducted from my premium?
- How long is the term?
- Does my contract have an interest rate cap?
- Is averaging used? How does it work?
- Is interest compounded during a term?
- Is there a margin, spread, or administrative fee? Is that in addition to or instead of a participation rate?
- Which indexing method is used in my contract?
- Can I get my money when I need it?
- Is it possible to lose money in an EIA?
- What annuity income payment options do I have?
- What is the death benefit?

Supervision: The Firm supervises the sale of EIAs in much the same way as it supervises the sale of Variable Annuities—both supervisory and sales personnel should reference that section in this Manual to be familiar with expectations. As with other securities sales, all sales of EIAs require Principal review and approval. Supervisors should pay particular attention to suitability and replacement issues when reviewing EIA sales for approval.

14.5 Municipal Fund Securities; 529 Plans

The CCO/Municipal Securities Principal is responsible for implementation and monitoring of the following procedures. 529 College Savings Plans are considered higher education savings plan trusts established under Section 529(b) of the Internal Revenue Code as “qualified tuition programs”. It is a policy that all communications with customers will be based on principles of fair dealing and good faith, will be fair and balanced, and must provide a sound basis for evaluating the facts regarding any particular security or type of security, industry, or service.

Representatives will not be allowed to omit any material fact or qualification if the omission, in the light of the context of the material presented, would cause the communications to be misleading.

Representatives are prohibited from making any false, exaggerated, unwarranted or misleading statement or claim in any communication with customers. Representatives are prohibited from publishing, circulating, or distributing any communication that they know or have reason to know contains any untrue statement of a material fact or is otherwise false or misleading. As for all the Firm’s advertising, the CCO shall review all promotional materials prior to their use, retaining evidence of oversight among the firm’s central compliance files.

14.5.1 Apprentice Municipal Representatives

MSRB Rule G-3 requires any person who first becomes associated with a broker-dealer in a representative capacity without having previously qualified as a municipal securities representative or general securities representative to act in the capacity of an apprentice with regard to the sale of municipal securities to the public for a period of 90 days. During this time period all representatives are prohibited from transacting any business with the public, nor compensated for transactions in municipal securities. It is a policy of the firm to only hire experienced registered representatives.
Fortune Financial does not have any Apprentice Municipal Representatives.

14.5.2 Annual Review of WSPs

MSRB Rule G-27 requires the firm to revise and update its written supervisory procedures as necessary to respond to changes in applicable rules and as other circumstances requires. In addition, MSRB Rule G-27 requires that it review, at least on an annual basis, its supervisory system and written supervisory procedures.

Under the oversight and at the instruction of the CCO, all applicable policies and procedures related to the business activities conducted by the firm will be implemented in a timely manner. The CCO will provide all registered persons of the firm with a copy of the amended or revised policy or procedure as applicable. In addition, the firm will maintain all compliance, supervisory, and procedures manuals, including all revisions and amendments for a time period of at least three years after the termination of use of such policy or procedure.

The CCO maintains a list of principals responsible for the establishment and enforcement of applicable rules and is responsible for notification to the Regulators on appropriate regulatory systems.

The CCO will conduct an annual review of the firm's business activities and supervisory system, including the examination of all branch offices of the firm retaining evidence of completion of the review among the firm's central compliance files.

14.5.3 Supervisory Responsibilities

It is the policy of Fortune that transactions in municipal securities must be affected in accordance with all applicable state and federal laws and regulations as well as the rules of the Municipal Securities Rule-making Board ("MSRB").

The Municipal Securities Principal will be responsible for complying with MSRB Supervision Rules G-27 & G-9, as well as all other MSRB Rules. Supervision will include the following sales practices relating to municipal securities transactions:

- Principal transactions with clients will be made at prices which are fair and reasonable and reflect a price and yield related to the current prevailing market
- Opening of each municipal securities account, each transaction in such and correspondence pertaining to the solicitation or execution of same, shall be reviewed promptly
- All client accounts will be subject to reviews by their Supervisors to detect irregularities and abuses
- If a client is employed by another broker/dealer or Municipal Securities Dealer, the Firm will notify such employer and ensure that duplicate confirms and/or statements are sent
- No employee shall exercise discretion over an account under any circumstances
- A file of all municipal communications will be approved, kept, and evidenced by signature of the Municipal Securities Principal prior to use and will be filed with FINRA if required (Dealers are prohibited from showing only current yield.)
- A copy of the MSRB Manual is available on line in the main office in which municipal securities activities are conducted, as well as in any branch office which is engaged in municipal securities transactions
- Suitability (and any other) information used or considered to be reasonable and necessary by Municipal Securities Dealers in making recommendations to clients will be recorded and maintained

14.5.4 Books and Records

MSRB Rule G-8 requires a broker-dealer to make and keep current the following books and records. MSRB Rule G-9 requires a broker-dealer to preserve the following records as follows:

- Records of Original Entry ***(NOTE – Fortune Municipal business is limited to 529 plans. As such not all of these records are applicable.)***

- Blotter or other records of original entry containing;
  - Itemized daily record of all purchases and sales of municipal securities;
  - All receipts and delivers of municipal securities;
  - All receipts and disbursements of cash with respect to transactions in municipal securities; and
  - All other debits and credits pertaining to transactions in municipal securities
- These records are required to show:
  - The name or other designation of the account for which each transaction was affected;
  - The description of the securities;
  - The aggregate par value of the securities;
  - The dollar price or yield and aggregate purchase or sale price of the securities;
  - Accrued interest
  - Trade date; and
  - The name or other designation of the person from whom purchased or receive or to who sold or delivered.
- These records must be preserved for a period of not less than six (6) years.

- Account Records: Broker-dealers are required to keep account records for each customer account and account of the broker-dealer.
  - These records are required to show:
    - All purchases and sales of municipal securities;
    - All receipts and delivers of municipal securities;
    - All receipts and disbursements of cash; and
    - All other debits and credits relating to such account
    - These records must be preserved for a period of not less than six (6) years.
- Securities Records: Records showing separately for each municipal security:
  - All positions carried by the Firm for its account or for the account of a customer;
  - The location of all such securities long and the offsetting position to all short securities;
  - The name or other designation of the account in which each position is carried;
  - All long securities count differences and short count differences classified by the date of the physical count and the verification on which they were discovered.
  - These records must be preserved for a period of not less than six (6) years.
- Municipal Securities in Transfer:
  - This record is required to show:
    - The description and aggregate par value of the securities;
    - The name in which registered;
    - The name in which the securities are to be registered;
    - The date sent out for transfer;
    - The address to which sent for transfer;
    - Former certificate numbers;
    - The date returned from transfer; and
    - The new certificate numbers.
  - This record must be preserved for a period of not less than three (3) years.

  - The firm conducts municipal business in 529 funds only. As such, these records are maintained on the firm's behalf by qualified custodians which are, in most cases, investment companies.
- Municipal Securities to be validated:
  - This record is required to show:
    - The description and aggregate par value of the securities;
    - The date sent out for validation;
    - The address to which sent for validation;
    - The certificate numbers; and
    - The date returned from validation.
  - This record must be preserved for a period of not less than three (3) years.
- Municipal Securities Borrowed or Loaned
  - This record is required to show:
    - The date borrowed or loaned;
    - The name of the person from whom borrowed or to whom loaned;
    - The description and the aggregate par value of the securities to be borrowed or loaned;
    - The value at which the securities were borrowed or loaned, and
    - The date returned.
  - This record must be preserved for a period of not less than three (3) years.
- Municipal Securities Transactions Not Completed on Settlement Date ***(***
  - This record is required to show:
    - The description and the aggregate par value of the securities;
    - The purchase price;
    - The sale price;
    - The name of the customer or broker-dealer from whom delivery is due or to whom delivery is to be made; and
    - The date on which the securities are received or delivered.
  - This record must be preserved for a period of not less than three (3) years.
- Put Options and Repurchase Agreements (with regard to Municipal Securities):
  - This record is required to show:
    - The description and the aggregate par value of the securities; and
    - The terms and conditions of the option, agreement, or guarantee
  - This record must be preserved for a period of not less than three (3) years.
  - The firm does not conduct transactions in put options or repurchase agreement involving municipal securities.
- Records for Agency Transactions:
  - This record is required to show:
    - The terms and conditions of the order and instructions, and any modification, including cancellation, thereof;
    - The account for which entered;
    - The date and time of receipt of any order by the broker-dealer;
    - The price at which executed;
    - The date of execution;

        - The time of execution, to the extent feasible;
        - If order is entered pursuant to a power of attorney, the name and address of the person who entered the order;
        - The terms, conditions, and date of cancellation, and, to the extent feasible, the time of cancellation.
    - This record must be preserved for a period of not less than three (3) years.
- Records for Transactions as Principal:
    - This record is required to show:
        - The price and date of execution, and to the extent feasible, the time of execution;
        - The date and time of receipt;
        - The terms and conditions of the order;
        - The name or other designation of the account in which it was entered; and
        - If order is entered pursuant to a power of attorney, the name and address of the person who entered the order;
    - This record must be preserved for a period of not less than three (3) years.
- Records of Syndicate Transactions:
    - The description and the aggregate par value of the securities;
    - The name and percentage of participation of each member of the syndicate or account;
    - The terms and conditions governing the formation and operation of the syndicate or account;
    - All orders received for the purchase of the securities from the syndicate or account;
    - All allotments of securities and the price at which sold;
    - The date of settlement with the issuer;
    - The date of closing of the account; and
    - A reconciliation of the profits and expenses of the account
- Copies of Confirmations, Periodic Statement and Other Notices to Customers including:
    - Confirmations of the purchase or sale of municipal securities;
    - Written statements disclosing purchases, sales, or redemptions of municipal fund securities;
    - Written disclosures to customer;
    - Notices concerning debits and credits to customer accounts;
- Financial Records: All broker-dealers shall make and keep current the books and records described in subparagraphs (a)(2), (a)(4)(iv) and (vi), and (a)(11) of SEC Rule 17a-3. These records must be preserved for a period of not less than three (3) years.
- Customer Account Information:
    - This record is required to show:
        - Customer’s name and residence or principal business address;
        - Whether customer is of legal age;
        - Tax identification or social security number;
        - Occupation;
        - Name and address of employer;
        - Customer’s financial status;
        - Customer’s tax status;
        - Customer’s investment objective;
        - Name and address of beneficial owner or owners of such account;

    - Signature of municipal securities representative, and general securities principal or municipal securities principal;
    - Customer's written authorization to exercise discretionary power or authority with respect to the account, if applicable;
    - Whether customer is employer by another broker-dealer;
    - The written authorization of or the notice provided to the customer in connection with the hypothecation of the customer's securities; and
    - The customer's written authorization, if any, that the customer does not object to the disclosure of its name, securities position(s) and contact information for the purposes of transmitting official communications under MSRB Rule G-15(g).
- Customer Complaints:
  - A broker-dealer is required to make and keep current a record of all written customer complaints of customers, and persons acting on behalf of customer, and what action, if any, has been taken by the broker-dealer in connection with each such complaint.
- Records Concerning Delivers of Official Statements:
  - A broker-dealer is required to make and keep current a record of all deliveries to purchases of new issue municipal securities, of official statement or other disclosures concerning the underwriting arrangements and a record evidencing compliance with MSRB Rule G-32(a)(i)(C).
- Designation of Persons Responsible for Recordkeeping:
  - A record of all designations of persons responsible for the maintenance and preservation of books and records:
- Records Concerning Delivery of Official Statement, Advance Refunding Documents and Forms G-36 (OS) and G-36(ARD) to the MSRB:
  - A record of the name and par amount, and CUSIP number or numbers for all such primary offerings of municipal securities;
  - The dates that the documents and written information are received from the issuer and sent to the MSRB;
  - The date of delivery of the issue to the underwriter;
  - The date of the final agreement to purchase, offer or sell the municipal securities; and
  - Copies of Form G-36(OS) and G-36(ARD), along with the certified or registered mail receipts of sending such forms and documents to the MSRB.
- Records Concerning Political Contributions:
  - This record is required to show:
    - A listing of the names, titles, city/county, and state of residence of all municipal financeprofessionals;
    - A listing of the name, titles, city/county, and state of residence of all non-municipal financeprofessional executive officers;
    - The states in which the broker-dealer engages or is seeking to engage in municipal securities business activities;
    - A listing of issues with which the broker-dealer has engaged in municipal securities business, along with the type of municipal securities business engaged in, during the current year and separate listing for each of the previous two calendar years.
    - The contributions, direct or indirect, to officials of an issuer and payment, direct or indirect, made to political parties of states and political subdivisions, made by the broker-dealer for the current year and separate listing for each of the previous two calendar years, including the identity of the

contributors, the names, and titles of the recipients of such contributions and payments, and theamounts and dates of such contributions and payments;
    - The contributions, direct or indirect, to official of an issuer made by each municipal finance professional, any political action committee controlled by a municipal financial professional and non-municipal finance professional for the current year, including the name, title, city/county and state of residence of contributors, the name and titles of the recipients of such contributions, the amounts and ate of such contributions, and whether such contribution was the subject of an automatic exemption to Rule G-37(j);
    - The payments, direct or indirect, to political parties of states and political subdivisions made by all municipal finance professions, any political action committee controlled by a municipal finance profession, and non-municipal finance professional executive officers for the current year, including the names, titles, city/county and state of residence of contributors; the name, and title of the recipients of such payment; and the amounts and date of such payment; and
    - Copies of Forms G-37/G-38 and G-37x sent to the MSRB along with the certified or registered mail receipts or other record of sending such forms to the MSRB.
- Records Concerning Compliance with MSRB Rule G-20 (Gifts and Gratuities)
  - This record is required to show:
    - A separate record of any gift or gratuity referred to in MSRB Rule G-20; and
    - All agreements referred to in MSRB Rule G-20(c) and all compensation paid as a result of those agreements.
- Records Concerning Consultants Pursuant to MSRB Rule G-38:
  - These records are required to show:
    - A listing of the name of the consultant, business address, role, and compensation arrangement of each consultant;
    - A copy of each Consultant Agreement;
    - A listing of compensation paid in connection with each such Consultant Agreement;
    - A listing of the municipal securities business obtained or retained through the activities of each consultant;
    - A listing of issuers and a record of disclosures made to such issuers concerning each consultant used by the broker-dealer;
    - Records of each reportable political contribution, including the names, city/county, and state of residence of contributors, the names, and titles of the recipients of such contributions, and the amounts and date of such contributions;
    - Records of each reportable political party payment, including the names, city/county, and state of residence of contributors; the names and titles of the recipients; and the amounts and dates of such contributions;
    - Recording indicating, if applicable, that a consultant made no reportable political contributions or reportable political party payments;
    - A statement, if applicable, that a consultant failed to provide any report of information to the broker-dealer concerning reportable political contributions or political party payments;
    - The date of termination of any consultant arrangement

14.5.5 Customer Accounts

Prior to any transactions, the customer must complete a client information form by providing the certain information that could be used in making recommendations to the customer.

The firm's municipal securities principal (or designated general securities principal) evidence review and approval of customer accounts by signing the customer new account form and/or application.

A copy of all customers new account forms are maintained in the customer's file for a period of not less than three yearsafter the closure of such account.

MSRB Rules G-8 and G-19 require that broker-dealers make and keep current customer account information.

These records are required to show:

- Customer's name and residence or principal business address;
- Whether customer is of legal age;
- Tax identification or social security number;
- Occupation;
- Name and address of employer;
- Customer's financial status;
- Customer's tax status;
- Customer's investment objective;
- Name and address of beneficial owner or owners of such account;
- Signature of municipal securities representative, and general securities principal or municipal securities principal;
- Customer's written authorization to exercise discretionary power or authority with respect to the account, if applicable;
- Whether customer is employer by another broker-dealer;
- The written authorization of or the notice provided to the customer in connection with the hypothecation of the customer's securities;
- The customer's written authorization, if any, that the customer does not object to the disclosure of its name, securities position(s) and contact information for the purposes of transmitting official communications under MSRB Rule G-15(g)

14.5.6 Sales Material Municipal Securities/529 Plans

For registered investment companies as well as other securities representing investments in pools of securities, such as municipal fund securities, any sales material prepared or used by the firm that refers to:

- the performance of the investment company securities or investment company families that underlie a municipal fund security
- the investment objectives or investment strategies of such an investment company
- the experience or capabilities of the investment advisor or portfolio manager of such an investment company
- the potential benefits or risks associated with investing in such an investment company and with any service provided to investors in the investment company
- the fees and expenses associated with investing in such an investment company, must comply with FINRA Rule 2210

Municipal fund securities sales materials must also comply with MSRB Rules G-17 and G-21. All such advertising and sales literature must have been filed with the FINRA Advertising Department within 10 days after its first use or publication by the firm who has distributed material in connection with the offer for sale of securities issued by such companies.

Prior to use of any such advertising or sales literature, the CCO will ascertain by inquiry addressed to the registered investment Company that this requirement has been complied with and that such material is cleared for use. In addition, the CCO will approve of the use of such materials by Company representatives

14.5.7 Supervision

Currently, supervision of sales activity in this area is conducted in accordance with the firms Mutual Fund sales supervision guidelines. Because the investment characteristics of these securities are so similar to securities of an investment company under the Investment Company Act, solicitation of them calls for the same type of supervision applied to investment company securities (while continuing to enforce applicable MSRB rules). Please refer to the *section above entitled "Mutual Funds"* for a detailed description of the supervisory oversight applicable to 529 Plans.

14.5.8 Gifts and Gratuities

MSRB Rule G-8 requires each broker, dealer, and municipal securities dealer to maintain a separate record of any gift or gratuity in excess of one hundred per year to be given or received by a person other than an employee or partner of the broker dealer.

MSRB Rule G-9 (ix) requires that records regarding information on gifts and gratuities be marinated for a period of not less than six years. MSRB Rule G-20 prohibits brokers, dealers or municipal securities dealers, directly or indirectly, from giving or permitting to be given anything or service of value, including gratuities, in excess of one hundred dollars per year to a person other than an employee or partner of such broker, dealer, or municipal securities dealer, if such payments or services are in relation to the municipal securities activities of the employer of the recipient of the payment or service. The firm prohibits the receipt or giving or any gratuities.

14.5.9 Political Contributions

MSRB Rule G-36 prohibits broker-dealers from engaging in municipal securities business with issuers if political contributions have been made to such issuers. MSRB Rule G-37 requires broker-dealers to disclose certain political contributions.

Broker-dealers are prohibited from engaging in municipal securities business with an issuer within two years after any contribution, in excess of $250 is made to an official of such issuer made by the broker-dealer, any municipal finance professional associated with the broker-dealer, or any political action committee controlled by the broker dealer or by any associated municipal finance professional.

MSRB Rule G-37 requires each broker-dealer to submit, by the last day of the month following the end of each calendar quarter, Form G-37/G-38. However, a broker-dealer is exempt from this requirement if the broker-dealer has:

- Not engaged in municipal securities business during the seven consecutive calendar quarters immediately preceding such calendar quarter
- Has sent to the MSRB a completed Form G-37x

MSRB Rule G-38 requires a broker-dealer that uses a consultant, meaning any person, to obtain or retain municipal securities business through direct or indirect communication by such person with an issuer on behalf of such broker-dealer, must evidence such consulting arrangement in writing. Such arrangement must include at a minimum, the name, business address, role (including the state or geographic areas in which the consultant is working on behalf of the broker-dealer), and compensation arrangement for each consultant. In addition, the consultant agreement must include a statement that the consultant agrees to provide the broker-dealer with a list of any and all reportable political

contributions and any and all political party payments during each calendar quarter made, or if no reportable political contributions or reportable political party payments were made during a calendar quarter, a statement to this.

The firm will file a Form G-37x and therefore, prohibit, by either the firm or all associated persons of the firm, the giving of any political contribution or political party contribution. In addition, the firm does not use Consultants to obtain or retain municipal securities business, directly or indirectly, on behalf of the firm.

The firm is aware that if these policies change, the firm is then subject to the reporting requirements of any and all political contributions or political party contributions. The firm understand that if the permits political contributions or political party payments, or if the firm begins to utilize consults to obtain or retain municipal securities business, the firm must first establish and implement written supervisory procedures to review and supervise these business activities.

Fortune allows political contributions under these restrictions:

- The total amount given to a candidate per election cycle (primary and general election) is limited to $350.00 if you can vote for the candidate.
- The limit for a contribution per candidate if you are not permitted to vote for the candidate is $150.00 per election cycle
- Political contribution must be pre-approved by the Compliance Department. Contributions made in excess of permitted amounts will have to be refunded from the candidate.

14.5.10 Customer Complaint Brochure

MSRB Rule G-10 requires that a broker-dealer deliver a copy of the investor brochure to a customer promptly upon receive of a compliant by a customer.

The CCO is responsible for the delivery of the investor brochure to a customer promptly upon receipt of a complaint by a customer. If the firm receives a complaint by a customer regarding municipal securities, the MSRB Principal will send the customer a cover letter acknowledging the receipt of the complaint and the MSRB investor brochure that describes the MSRB Rules protecting the customer and information pertaining to arbitration and communication with MSRB. The cover letter is sent by the end of the business day in which the firm receives the written customer complaint. The firm maintain will maintain a copy of the cover letter, to evidence the sending of the brochure, for a period of not less than six years.

15 CONTINUING EDUCATION

Pursuant to Membership and Registration Rule 1240, Fortune Financial Services, Inc. is required to develop a program and implement such program for the continuing education of its covered registered persons. These covered registered persons include registered persons who have direct contact with customers in the conduct of the Firm's securities sales, trading, and investment banking activities; are registered as a research analyst; or are the immediate supervisors of suchpersons.

The designated Principal of the Firm shall administer its continuing education program in accordance with its annual evaluation and written plan and shall maintain records documenting the content of the program and completion of the program by its registered covered persons.

All registered persons of the Firm are required to comply with the rules set forth by FINRA regarding Continuing Education. This rule prescribes requirements regarding the Continuing Education of certain registered persons subsequent to their initial qualification and registration with FINRA. The requirements consist of a Regulatory Element

and a Firm Element. The designated Principal will ensure that all registered persons of the Firm shall be fully aware of their responsibility to comply with their Continuing Education responsibilities. The requirements for the Regulatory Element and Firm Element are set forth in the sections below.

In January 2002 FINRA amended Rule IM-1000-2 to state that securities industry professionals who volunteer or are called into active military duty (Active-Duty Professionals) are not required to complete either of the Regulatory or Firm Elements of the continuing education requirements set forth in Rule 1210 while they remain on specially designated “inactive” status. The designated Principal will ensure that any such Active-Duty Professionals employed by the Firm will have notified FINRA of their duty in order to be put on inactive status. Rule IM-1000-2 was further amended in November 2005 and January 2006 to further clarify requirements *see Section 4.1 for more information.*

15.1 Regulatory Element

FINRA has revised the Regulatory Continuing Education program. Effective January 1, 2023, all registered persons are required to complete an annual continuing education program. Broker-dealers are permitted to create a deadline for the completion of these courses. Fortune has determined that the deadline for our representatives to complete the require FNRA course will be September 1, 2023.

The revised program will allow an individual to maintain registration for 5 years after terminating an association with a member firm if the individual continues to complete the annual continuing education program. Failure to continue to complete the annual requirements will restrict the time to re-register to 2 years.

FINRA will tailor the courses depending on the registered person’s current registration. A Series 6 representative or Registered Sales Assistant will have different courses selected than a representative that holds a Series 7 and a Series 24 licenses.

The Firm will not permit any registered person to continue to, and no registered person of the Firm shall continue to, perform duties as a registered person unless such registered person has complied with the Regulatory Element requirements.

15.1.1 Firm Notification Queues on Firm Gateway/ WebCRD

The Regulatory Element Program is delivered through computer-based training in which participants work through problems related to realistic scenarios at computer terminals. Training is conducted through the FINRA CE Online Program

The Central Registration Depository (CRD) keeps track of those affected by the Regulatory Element by posting on its website (http://crd.fiinra.org/crdmain) the names of Company employees required to satisfy the Regulatory Element. The individual designated above monitors registered employees' Regulatory Element requirements through "Firm Notification Queues" on Firm Gateway/ WebCRD. The firm will communicate with all registered persons regarding the requirement for the annual regulatory continuing education requirements. The Executive Representative must ensure that this designated contact’s name and e-mail address have been provided to FINRA and that, within seventeen business days after the end of each calendarquarter, this contact information is reviewed and changed, if necessary.

FINRA will notify the Firm in advance for those individuals who are required to sit for the session. The firm will provide reminders to all registered individuals as to their status regarding this requirement.

The designated contact monitors Firm Gateway/ WebCRD to determine that each registered person is in compliance with the Regulatory Element. He or she must notify registered persons of their status, when in compliance or not. All registered persons who are not in compliance should be notified in writing of their responsibility to comply with the Continuing Education Regulatory Element and of the disciplinary action for noncompliance. All registered persons

determined to have had their registration status changed to inactive are not able to perform, or be paid for, anyactivity that requires securities registration.

15.1.2 Failure to Complete

Unless otherwise determined by FINRA, any registered person of Fortune who has not completed the Regulatory Element within the prescribed time frames will have their registrations deemed inactive until such time as the requirements of the Program have been satisfied. Any person whose registration has been deemed inactive under this Rule shall cease all activities as a registered person and is prohibited from performing any duties and functioning in any capacity requiring registration. A registration that has been inactive for a period of two years will be administratively terminated. A person whose registration is so terminated may reactivate his or her registration only by reapplying for registration and meeting the qualification requirements of the applicable provisions of FINRA Registration Rule 1020 and Rule 1030.

All Registered Representatives are required by the FINRA to sit for the computer based continuing education (CE) tutorial program regardless of tenure. This program is sponsored by FINRA and an annual requirement effective January 1, 2023.

15.1.3 Fines and Termination

Any Registered Representative who then does not complete their requirement within their CE window will be deemed non-compliant and inactive.

Registered Representatives who fail to fulfill their continuing education tutorial requirements will be deemed inactive and no sales can be made, or commission paid. FINRA is very strict regarding CE inactivity. It is Fortune’s intent to work with all Registered Representatives to meet these requirements.

- Please note that if a Registered Representative goes CE inactive, a $100 CE inactivity fee will be charged by the firm in addition to the CE testing fee.
- After 30 days of CE inactivity, we will terminate the Registered Representative’s association with the firm. The Firm reserves the right, however, in special situations, not to fine the Registered Representative $100 or terminate after 30 days.
- All Registered Representatives will be terminated after 90 days of CE inactivity.

All Registered Representatives are strongly encouraged to fulfill their CE requirements as early in their window as possible. If a Registered Representative waits until the end of the window and fails to complete the session, the window could close, and the Registered Representative could inadvertently become inactive. It is the policy of the firm not to hire CE inactive Reps but reserves the right to do so in some circumstances.

Should a registered representative be terminated by the firm for CE inactivity, and/or the failure to pay fines in a timely manner as noted above, no refunds of licensing and association fees will be made, in whole or in part (pro-rata), regardless of when in the business year said termination is affected.

15.2 Firm Element

The Firm Element requires that each member conduct an annual analysis of its training needs. Members must also administer appropriate training to their registered persons who have direct contact with customers, to registered research analysts, and to immediate supervisors of such registered persons, on an ongoing basis. The training must cover topics specifically related to their business, such as new products, sales practices, risk disclosure, and new regulatory requirements and concerns. The Rule requires members to focus specifically on supervisory needs in their analysis and, if it is determined that supervisory training is necessary, it must be addressed in the Firm Element training

plan.

FINRA has implemented a program to require firms to engage in Continuing Education through periodic programs that, on at least an annual basis, provide Registered Representatives with current training on new regulatory and other developments. FINRA has sponsored a Securities Industry/Regulatory Council on Continuing Education which from time to time issues a Firm Element Advisory giving guidance to firms on topics that should be included in Firm Element Programs. FINRA has stated that firms should review the training topics listed in connection with their annual Firm Element Needs Analysis. Registered personnel and designated Principals may access the latest advisory on FINRA's website; advisories are announced in annual Notice to Members publications.

15.2.1 Persons Subject to the Firm Element

The requirements shall apply to any person registered with the Firm who has direct contact with customers in the conduct of securities sales or is the immediate supervisor of such persons (collectively, covered registered persons).

15.2.2 Standards for the Firm Element

The designated Principal must maintain a continuing and current education program for its covered registered persons to enhance their securities knowledge, skill, and professionalism. At a minimum, the designated Principal shall at least annually evaluate and prioritize its training needs and develop a written training plan. The plan must take into consideration the Firm's size, organizational structure, and scope of business activities, as well as regulatory developments and the performance of covered registered persons in the Regulatory Element.

Minimum Standards for Training Programs—Programs used to implement the Firm's training plan must be appropriate for the business of the Firm and, at a minimum must cover the following matters concerning securities products, services and strategies offered by the Firm:

- General investment features and associated risk factors
- Suitability and sales practice considerations
- Applicable regulatory requirements
- Anti-Money Laundering

Administration of Continuing Education Program—The designated Principal(s) must administer its Continuing Education Programs in accordance with its annual evaluation and written plan and must maintain records documenting the content of the programs by covered registered persons.

Annual Evaluation; Feedback – The Firm shall conduct an annual evaluation to determine the effectiveness of the Program, including whether its objectives were met and to set new objectives for the ensuing year, based on feedback from participants, new requirements, etc.

Covered registered persons included in the Firm's plan must take all appropriate and reasonable steps to participate in Continuing Education Programs as required by the Firm. The designated Principal will ensure that records are maintained as required by, and outlined in, the Training Plan, evidencing participation by covered persons (including, for example, attendance sheets and training and testing materials).

FINRA may require Fortune individually or as part of a larger group, to provide specific training to its covered registered persons in such areas as FINRA deems appropriate. Such a requirement may stipulate the class of covered registered persons for which it is applicable, the time period in which the requirement must be satisfied and, where appropriate, the actual training content.

15.2.3 Regulatory Consequences for Non-Compliance with Firm Requirements

Failure to comply with Firm Element requirements may subject the Firm and/or individuals to disciplinary action. Failure by covered registered persons to attend training provided by the Firm to comply with the Firm Element requirements may subject them to disciplinary action.

16 FINOP RESPONSIBILITIES AND NET CAPITAL REQUIREMENTS

The calculation and monitoring of net capital is the responsibility of the FINOP who also is responsible for ensuring the accurate and timely reporting of periodic net capital report and the policies and procedures which follow related to the Firm's financial management and reporting. Computations will be performed at least once per month and will be retained for three (3) years. The audited financial statements on Form X 17A-5 (the "Focus Report") contain a net capital computation under Securities Exchange Act Rule 15c3-1; this format can be used for the basic computation. State filings are also required, as are registration amendments and renewals.

Some of the FINOP's specific responsibilities include:

- Review and filing of the Firm's financial reports and periodic review of accounting records
- Periodic consideration of whether the Firm's minimum net capital requirements have changed because of changes in the Firm's business
- Supervising additions to, and withdrawals from, the equity capital of the Firm
- Reporting borrowings and subordinated loans for capital purposes (including regulatory capital exposure as to each underlying principal lender in agency lending arrangements)
- Establishing procedures for retention of required financial books and records
- Determining necessary fees and assessments due under the provisions described in Schedule A of FINRA By-Laws
- Reviewing at least annually the Firm's Fidelity Bond to ensure adequate coverage and compliance with the requirements under Rule 3020
- Periodic testing of the net capital computation, including such areas as accounts receivable and other calculations

If the Firm's net capital becomes deficient, the FINOP is responsible for filing the necessary reports with regulators and communicating any resulting restrictions in business activity. Note that NTM 05-47 provides specific guidance on the treatment of a day on which securities markets are unexpectedly closed (i.e., whether that day is considered a 'business day' vis-à-vis such subjects as net capital, reserve formula, possession or control, Reg. T extensions, margin calls, sell order extensions, day trading requirements, bookkeeping entries on the liquidation of customers' money market funds or on the sweep of customers' balances into money market funds, FOCUS reporting, and securities lending). In the event of an unexpected closing of markets, the FINOP must ensure proper treatment of all items detailed in the NTM, where applicable to the Firm's business.

The Firm's minimum net capital requirement is $5,000.00; however, the Firm is required to maintain at least 120% of this amount, or $6,000.00, in net capital at all times. Under the provisions of the federal securities laws and under state Blue Sky regulations, "net capital" is defined as net worth adjusted as follows:

- Adding unrealized profits (or deducting unrealized losses) in the accounts of the Firm
- Subtracting federal or state tax liabilities (if any) stemming from accrued income or unrealized appreciation
- Adding future income benefits resulting from unrealized losses (if any)
- Subtracting the excess of any deductible amount on the Firm's required Fidelity Bond over the maximum permissible amount

- Subtracting fixed assets and assets that cannot readily be converted into cash, including, but not limited to, real estate, furniture, fixtures (if any), prepaid rent, insurance expenses (if any), prepaid administrative expenses, goodwill and organization expenses, unsecured advances and loans, and mutual concessions receivable that are outstanding longer than 30 days

The Securities Exchange Act requires varying sums contingent on the nature of the business conducted by the Firm. Note, however, that some states require a greater amount of net capital. SEC and Blue-Sky regulations also state that the ratio of aggregate indebtedness to net capital cannot exceed 15:1 under applicable regulations.

FINRA may direct Fortune Financial Services, Inc. to reduce its business to a point enabling its available capital to comply with the standards set forth above if any of the following conditions continue to exist, or have existed for more than fifteen consecutive business days:

- The Firm's net capital is less than 125 percent of its net capital minimum requirement or such greater percentage thereof as may from time to time be proscribed by FINRA
- The Firm's aggregate indebtedness is more than 1,200% of its net capital, if subject to the aggregate indebtedness requirement under SEC Rule 15c3-1
- A deduction of capital withdrawals, including maturities of subordinated debt, scheduled during the next six months would result in either of the conditions described above

The FINOP shall ensure that the Firm abides by any directive issued by FINRA as a result of net capital violation and require the Firm to suspend all business operations during any period of time when it is not in compliance with applicable net capital requirements as set forth in SEC Rule 15c3-1.

16.1 Withdrawals of Equity Capital

- The designated Principal shall track all withdrawals including anticipated withdrawals, advances, and loans toassure the Firm is in compliance with SEC Rule 15c3-1 (e)(1).
- The designated Principal shall notify the SEC and FINRA two days prior to any withdrawals, advances, or loansthat in aggregate:
    - Are more than $500,000 and
    - Exceed 30 percent of the Firm's excess net capital in any 30-day calendar period.
- The designated Principal shall notify the SEC and FINRA within 2 days after any withdrawals, advances, or loansthat in aggregate:
    - Are more than $500,000 and
    - Exceed 20 percent of the Firm's excess net capital in any 30-day calendar period.
- The designated Principal must assure that no equity capital is withdrawn which would cause one of the following to happen:
    - the Firm's net capital would be less than 120% of the minimum dollar amount
    - the Firm's net capital would be less than 25% of deductions from net worth in computing net capital required by paragraphs (c)(2) vi, f and Appendix A; or
    - The aggregate indebtedness exceeds 1000%.
- The designated Principal must also make sure that withdrawals of equity capital are not made for the purpose of reimbursing expenses paid or agreed to by paid by a third party, unless corresponding liabilities have been recorded on the Firm's books. The FINOP should review NTM 03-63 and the SEC's letter of clarification of expense sharing agreements referred to in the sub-section below, in order to understand and comply with all relevant requirements.

- Effective January 1, 2007, notification of capital withdrawals must be filed electronically using the Financial Notifications link the FINRA Firm Gateway and additional documentation provided if requested. Notices must still be provided via email or facsimile to the SEC's Market Regulation Department and the SEC's Regional or District office as electronic filing only fulfills FINRA's notification requirement.

16.2 Subordinated Loans

Should the Firm secure financing from investors and/or customers in the form of subordinated debt in order to enhance its net capital position, the FINOP will ensure that the following requirements are met:

- The subordinated debt is subject to the terms of a satisfactory subordination agreement--either a Subordinated Loan Agreement (SLA), whereby the investor lends cash to the Firm; or a Subordinated Demand Note (SDN), whereby the investor promises to lend cash on demand and such promise is collateralized by securities. In either case, the FINOP will ensure that a signed agreement (either the SLA or SDN), in the form mandated by SEC Rule 15c3-1, is submitted to FINRA for approval prior to including the debt as approved capital for net capital computation purposes
- The Firm obtains a signed Subordination Agreement Investor Disclosure Document from each investor prior to entering into a subordination agreement with that investor. Such Disclosure Document must be provided to FINRA for review, along with the respective subordination agreement. Please *see the Forms Section* for the required form of Disclosure Document.

Only that debt meeting these requirements and approved by FINRA will be considered capital when computing net capital. The FINOP has the responsibility to ensure the proper accounting and treatment of all subordinated loans made to the Firm.

16.3 Expense Sharing Agreements

The FINOP, when calculating and monitoring the Firm's net capital requirements and actual amounts, must ensure that all expenses and liabilities are accounted for. If any third party has agreed to pay expenses related to the Firm's business, the Firm's net capital may be overstated as a result of not properly recording its responsibility to ultimately cover these expenses, either in part or in full. The result may be a net capital violation, punishable by sanction and/or fine.

FINOP will ensure that the Firm complies in all respects with the requirements regarding expense sharing, including the following (in summary only): making a record of all expenses and liabilities incurred by the Firm (reasonably allocated); having a written agreement evidencing all liabilities assumed by third parties and specifying the terms of such agreement; verifying that third parties have resources—independent of the Firm—sufficient to cover the expenses or liabilities; prohibiting withdrawals of, or contributions to, Company capital for the purpose of covering expenses paid by third parties; agreeing to provide authorities access to its books and records and to those of unregulated entities party to the expense sharing arrangement; and reporting to FINRA District Office a description of any such agreement, if the Firm does not report all its expenses and liabilities in its existing required periodic financial reports.

The FINOP is responsible for ensuring that the net capital of the Firm is correctly calculated and reported, and that all expenses and liabilities of the Firm, including those related to any and all expense sharing agreements, must be reflected, when and as necessary, on the Firm's books and records. The FINOP will review, annually, all such agreements and confirm that all necessary financial and other reporting is accomplished. Erroneous reports must be corrected and

filed as required. Records of all reviews, filings and corrections must be maintained in accordance with the record keeping rules described herein. Reference: NTM 03-63.

16.4 Annual Financial Audit

Fortune Financial Services, Inc. shall file annually, on a calendar or fiscal year basis, a report that shall be audited by an independent public accountant qualified in accordance with SEC's Rule 17a-5. The annual report shall be filed not more than sixty (60) days after the date of the financial statements. One copy of the report shall be filed at the regional or district office of the SEC, two copies at the SEC's principal office in Washington D.C. and to all self-regulatory organizations and states (if required) of which the Firm is a member.

According to SEC Rule 17a-5(f)(3), the accountant hired by the Firm to conduct its annual audit must be independent to render an audit opinion on the Firm's financial statements. In keeping with the SEC's emphasis reiterated in NTM 02-19, the Firm's audit firm cannot be in a position in which it is, or appears to be, auditing its own work—in other words, the auditor's independence must not be impaired, and it is prohibited from providing accounting and bookkeeping services to the Firm. The Firm's auditor is permitted by the SEC to perform certain financial system services, only if the Firm has explicitly acknowledged its responsibility to actively maintain, monitor, and evaluate the financial information and reporting system.

The FINOP of the Firm will annually review the services provided by the Firm's outside auditor to ensure that the auditor's independence is not impaired. In his or her review, the FINOP will consult FINRA's guidelines published in NTM 02-19. In addition, the FINOP will seek to obtain (or has obtained) an engagement letter from the auditor outlining the services to be provided and the respective responsibilities of both parties as well as a representation from the auditor that he or she is either a certified public accountant duly registered or a public accountant entitled to practice in good standing under the laws of his or her place of residence or principal office.

If the Firm changes its auditor, it shall file electronic notification regarding this change using the Financial Notifications link via the Financial Notifications link on the FINRA Firm Gateway. Notices must also be sent to the SEC as required under the Rule since the electronic notification only satisfies the notification requirements of FINRA.

16.5 Focus Reports

On behalf of the Firm, the designated Financial and Operations Principal (FINOP) shall file Part IIA of form X-17A-5 within seventeen business days after the end of each calendar quarter and within 17 business days after the date selected for the annual audit of financial statements where said date is other than the end of the calendar quarter. (Note: A day on which securities markets are unexpectedly closed is not a business day for FOCUS filing purposes.) In addition, in certain situations, the Firm may be required by FINRA to file Part IIA of form X-17A-5 on a monthly basis. The required Part IIA of Form X-17a-5 shall be filed electronically, utilizing FINRA's Web based FOCUS system. Please refer to the table and language under Section 17.3 above ("Net Capital Requirements") for a description of the Firm's supervisory responsibility related to determining net capital, for the purpose of reporting such via the FOCUS system.

16.6 Reporting Required Under SEC Rule 17a-11

Additional financial reporting may be required in order to comply with SEC Rule 17a-11 if the Firm finds itself in net capital violation, approaches financial difficulties and/or experiences a books and records problem. Rule 17a-11 is designed to function as an all-encompassing reporting vehicle and requires the Firm to send immediate electronic notice to the SEC and FINRA at any time when:

- The dollar amount of the Firm's net capital is less than its required minimum

- The Firm's aggregate indebtedness exceeds 1,500 percent of its net capital (800 percent for the Firm's first twelve months after its effective date of membership with FINRA)

Additionally, in accordance with Rule 17a-11, the FINOP will promptly file notification with the SEC and FINRA if at any point in time:

- The Firm's aggregate indebtedness exceeds 1,200 percent (12 to 1) of its net capital
- Its net capital is less than 120 percent of its required net capital

Other provisions of SEC Rule 17a-11 require the Firm to send telegraphic notice to the SEC and other appropriate agencies when:

- The Firm fails to make and keep current the books and records specified under SEC Rule 17a-3. The telegraphic notice must be sent immediately; and within 48 hours of the telegraphic notice FINOP must file a report stating what corrective actions have been taken
- The Firm discovers or is notified by an independent public accountant, pursuant to paragraph (b)(2) of SEC Rule 17a-5, of the existence of any material inadequacies in its accounting system, internal accounting control, or the procedures for safeguarding securities. The telegraphic notice of such material inadequacy shall be made to the SEC and FINRA within 24 hours, and within 48 hours of the telegraphic notice a report shall be filed stating the corrective steps which have been and are being taken.

The Firm's designated FINOP shall ensure the timely filing of all notices required under SEC Rule 17a-11 though a link provided on the FINRA Firm Gateway and telegraphically with the SEC's principal office in Washington, DC, the Regional Office of the SEC where the Firm's main office is located.

17 Books and Record keeping

17.1 Record Keeping and Reporting

The CCO shall ensure that the firm is in strict compliance with all applicable sections of SEC Rules 17-a-3 and 17a-4. Among other responsibilities, the designated Principal shall be responsible for ensuring that the following procedures are implemented:

- All entries to books and records will be posted in a timely manner
- Confirmations are prepared by the product sponsor, which contain the disclosures pursuant to SEC Rule 10b-10, including the following:
  - Whether the Firm is acting as agent for the customer; and
  - Bank balances, month-end trial balance proprietary positions, relevant sub-ledger balances and trial balances will be reconciled and duly supervised. Final periodic reconciliation of accounts will be conducted monthly by the Firm's CFO.

17.2 Record of Written Complaints

In accordance with SEC Rule 17a-3, the designated Principal of the Firm shall ensure that the Firm keeps and preserves (for at least three years) in each of its offices of supervisory jurisdiction, a record of all customer complaints concerning each associated person, including the complainant's name, address, and account number; the date the complaint was received; the name of each associated person identified in the complaint; a description of the nature of the complaint; and the disposition of the complaint (or, alternatively, files kept by name of associated person that include a copy of each original complaint and a record of the disposition of each complaint). Additionally, the designated Principal or designee will maintain a record of whether customers were provided with an address and phone number where they should direct complaints *(see Section 10).*

17.3 Customer Account Information

The designated Principals, in the process of reviewing new accounts for approval and performing periodic reviews of existing account records, shall ensure compliance with all record keeping requirements described in the following text.

17.3.1 Account Record

The Firm intends to maintain, at a minimum, the following customer records, as required by amended SEC Rule 17a-3 and FINRA Rule 3110 (the requirements are combined here):

- Name
- Tax ID number
- Address (note: AML regulation requires physical address)
- Telephone number
- Date of birth (and whether the customer is of legal age)
- Employment status (including occupation and whether the customer is an associated person of a member, broker, or dealer)
- Annual income
- Net worth (excluding value of primary residence)
- Investment objectives
- If the customer is a corporation, partnership or other legal entity, the names of any persons authorized to transact business on behalf of the entity
- Indication that the account record has been signed by the associated person responsible for the account, if any, and approved by a principal of the Firm (evinced by the designated Principal's signature)

For **joint accounts**, the record must include personal information for each owner of the account, but should include investment objectives of the account, not of each individual owner. Financial information for the owners may be combined.

17.3.2 Furnishing Account Record Information

SEC Rule 17a-3 requires the Firm to furnish account record information to their customers who are "natural persons," as defined in the Rule (accounts that are entities are not included in this definition), as follows:

- Within 30 days of opening a new account
- At least once every 36 months upon updating account information
- Following a change in customer name or address (sent to the old address only)
- Following a change in any other customer information, such as investment objectives.

This requirement will serve to reduce the number of misunderstandings between customers and the Firm regarding the customer's situation or investment objectives. The Firm will furnish account record information to customers after account opening, upon receipt of changes to the account records, and/or periodically, as required for accounts opened. When furnishing account records to customers, the Firm will request that the customer review the information and immediately reply with any necessary corrections or changes to the information provided.

The Firm is not required to include the customer's tax ID number and date of birth in this furnished information (in order to avoid potential perpetration of fraud by unauthorized recipients).

17.4 Preparation of Required Records

Under the oversight and at the instruction of the CCO, the Firm shall make and keep current the following books and records relating to its business (where applicable):

- Blotters (or other records of original entry) containing an itemized daily record of all purchases and sales of securities, all receipts and disbursements of cash and all other debits and credits. Such records shall show the account for which each such transaction was affected, the name and amount of securities, the unit and aggregate purchase or sale price (if any), the trade date and the name or other designation of the person from whom purchased or received or to whom sold or delivered
- Ledgers (or other records) reflecting all assets and liabilities, income and expense and capital accounts
- A Record of the proof of money balances of all ledger accounts in the form of trial balances, and a record of the computation of aggregate indebtedness and net capital, as of the trial balance date, pursuant to SEC Rule 15c3-1

FINRA Rules and amended SEC Rule 17a-3 require the Firm to maintain the following records regarding each associated person:

- A questionnaire or application for employment or U4 Form executed by each associated person of the Firm which shall be approved by the authorized representative of the Firm
- All agreements pertaining to the associated person's relationship with the Firm, including a summary of the person's compensation arrangement or plan (describing the method by which compensation is determined, if not on a per-trade basis)
- A record of the office(s) at which each associated person regularly conducts business *(see "Registered Representative Assignment," below*)
- A record of all customer complaints concerning each associated person, as described above
- Internal identification numbers and CRD numbers *(see "Registered Representative Assignment," below)*

The Firm shall also maintain the following records for each associated person: the value of non-monetary compensation (such as gifts or trips as sales incentives) directly related to sales. These values should be estimated for the sake of this record-keeping requirement.

17.4.1 Explanation of Records

The Firm has designated the following personnel, who can, without delay, explain the types of records the Firm maintains, and the information contained in those records:

Employee Name OR Title	Office Location	Types of Records Explained	Date of Designation
Blake W. Daniels	Home Office	Financials	12-27-1996
CCO	Home Office	Compliance	05-26-2017
CCO	Home Office	Sales	05-26-2017

17.5 Branch Office Records

For both creation and maintenance of records, the definition of "office" adopted by the SEC includes any location where an associated person regularly conducts business. Company personnel, as designated herein, must make, and keep current, separately for each office, certain books and records that reflect the activities of the office, including, as applicable:

- blotters

- customer account records
- customer complaints
- names of persons capable of explaining the records
- names of any principals responsible for establishing policies and procedures
- Employment agreements for each associated person, including the terms of compensation

These records may be maintained at the office, or instead, may be produced “promptly” upon request (either electronically or on-site). Promptly is generally meant to mean by the day the after the request was made or at a time mutually agreeable to the Firm and the regulator. Such office records must be maintained for the most recent two-year period in a readily accessible location.

For each office located at an associated person’s residence, the Firm is not required to produce records at such office, provided that:

- only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, regularly conduct business at the office
- the office is not held out to the public as an office
- neither customer funds nor securities are handled at that office
    - In this case, records may be stored at some other location within the same state as that office or may be promptly produced at an agreed upon location.

17.6 FINRA Requests for Information

The CCO must ensure cooperation with any and all information requests made by FINRA or SEC.

Under Rule 8210, for the purpose of an investigation, complaint, examination, or proceeding authorized by FINRA, the Firm and its associated persons are required to provide information orally, in writing, or electronically and to testify, if instructed. The Firm must also allow FINRA to inspect and copy its books, records, and accounts with respect to any matter involved in the investigation, complaint, examination, or proceeding. The Firm and its associated persons must also provide information in connection with investigations being conducted by other regulatory organizations. All requests for information must be brought to the attention of the CCO, who will establish and monitor a process by which requested information will be produced and provided. The CCO will attempt to ensure that all existing information subject to requests is produced for inspection and copying. Associated persons are required to cooperate with all such information requests and must not fail to testify when required or to disclose or produce requested books, records, or account information for copying.

The CCO ensures that any information provided to FINRA on electronic media containing non-public information will be encrypted.

17.7 Records of Cash and Non-Cash Compensation

Fortune Financial Services, Inc. must maintain records of all compensation, cash, and non-cash, received from offerors. The records must include the names of the offerors, the names of the associated persons, and the amount of cash and the nature and, if known, the value of non-cash compensation received. Records regarding the "nature" of non-cash compensation received shall disclose whether the non-cash compensation was received in connection with a sales incentive program or a training and education meeting. Thus, for example, records for a training and education meeting shall include information demonstrating that the requirements of a training and education meeting were complied with, including the date and location of the meeting, the fact that attendance at the meeting was pre-approved by a Company

Principal and was not conditioned on the achievement of a previously specified sales target, the fact that the payment was not applied to the expenses of guests of associated persons of the Firm, and any other relevant information.

17.8 Preservation of Required Records

Under the oversight of the CCO, Fortune Financial Services, Inc. shall preserve for a period of not less than six years, the first two years in an easily accessible place, the following records, as applicable:

- Blotters (or other records of original entry)
- Ledgers (or other records) reflecting all assets and liabilities, income and expense and capital accounts
- Ledger accounts (or other records) itemizing separate entries as to each account of every customer and of the Firm, broker or dealer and partners thereof (if appropriate) all purchases, sales receipts and deliveries of securities and commodities for such account and all other debits and credits to such account

The Firm must preserve for a period of not less than five years the transfer notice records required to be kept under the Bank Secrecy Act. Record keeping requirements under the USA Patriot Act are described in the Firm's AML Compliance Program.

The Firm shall preserve for a period of not less than three years after the date of the respective document, the first two years in an accessible place, the following records:

- Ledgers (or other records) required to be made pursuant to SEC Rule 240.17a-3(a)(4)
- Memoranda of purchases and sales required to be made pursuant to SEC Rule 240.17a-3(a)(7)
- Information provided to and used by designated Principals to approve changes made to the name or designation recorded on customer orders
- Copies of confirmations of all purchases and sales of securities required to be made pursuant to SEC Rule 240.17a-3(a)(8)
- Records of each account with the Firm required to be made pursuant to SEC Rule 17a-3(a)(9)
- All checkbooks, bank statements, canceled checks and cash reconciliations
- All bills receivable or payable (or copies), paid or unpaid, relating to the business of the Firm
- Originals of all communications received, and copies of all communications sent by the Firm, including interoffice memoranda and communications relating to its business (whether electronic or paper)
- All trial balances, computations of aggregate indebtedness and net capital (and accompanying working papers), financial statements, branch office reconciliations and internal audit working papers relating to its business
- All manuals describing the Firm's policies and practices with respect to compliance and supervision, including any updates, modifications, and revisions (for three years after termination of their use)
- A copy of all reports that a securities regulatory authority has requested or required the Firm to create, including each examination report

In addition, the Firm maintains for a period of three (3) years after receipt the express signed authorization of each customer to submit for payment a check, draft or any other form of negotiable paper drawn on a customer's checking, savings, share or similar account.

The Firm shall preserve, for a period of not less than six years after the closing of any customer account, any account cards or records that relate to the terms and conditions with respect to the opening and maintenance of such account.

For 18 months after the date the report was generated, the CCO or other appointed personnel must maintain (or must be able to recreate or simulate if necessary) reports created to review unusual activity in customer accounts ("exception reports").

The CCO or designee shall maintain and preserve in an easily accessible place, all questionnaires, or applications foremployment pursuant to SEC Rule 240.17a-3(a)(12), until at least three years after the "associated person" has terminated his or her employment and any other connection with the Firm.

All organizational records of the Firm, including, but not limited to, articles of incorporation or charters, minute books and stock certificate books, shall be preserved during the life of the enterprise and of any successor enterprise. In addition, the CCO or designee shall maintain, for the life of the entity, copies of Forms BD and all amendments thereto (only those portions of the Form that were amended must be kept).

Format of Primary Records Storage. The Firm currently maintains its required books and records in the following format: paper document storage, electronic images and electronically with a third-party vendor (e-mail only). The Firm's financial records which are subject to later correction are maintained in paper form.

The CCO is responsible to ensure that records are maintained, stored, and duplicated, if required, in accordance with allapplicable sections under SEC Rule 17a-4. The Firm, if it maintains some or all records in paper format and backs theserecords up electronically, is not required to back up these electronic records or meet the other requirements for electronic storage of primary records as described under 17a-4(f).

If the Firm changes its method of document storage to include electronic formats, it will notify FINRA prior to doing so (90 days prior if such method is not optical disk technology (CD-ROM)) and will conform to all requirements under SEC Rule 17a-4(f).

With regard to the Firm's primary books and records maintained exclusively in micrographic format or in an electronic format, the CCO will ensure that the Firm is able to:

- Immediately produce easily readable images for examiners for examination; produce facsimile enlargements upon request
- Store separate, duplicate copies of records that meet the medium requirements under SEC Rule 17a-4
- Organize and index all information on primary and duplicate media (and make them available to examiners and keep duplicates of the indexes)
- Implement an audit system providing for accountability regarding inputting of records and inputting of any changes made to every original and duplicate record (and make audit results available to examiners)
- Maintain and provide to examiners all information necessary to access records and indexes stored on the electronic storage media; or place in escrow and keep current a copy of the physical and logical file format of the electronic storage media, the field format of all different information types written on the electronic storage media and the source code, together with the appropriate documentation and information necessary to access records and indexes

Duplicate records, original and duplicate indexes, and audit results must be preserved for the time required for the original, respective records.

Because the Firm maintains all or some of its primary books and records electronically, it was required to give prior notification to FINRA of its record storage system and has represented to FINRA (or has had a vendor or knowledgeable third party make the representation) that the system is able to:

- Preserve the records exclusively in a non-rewriteable, non-erasable format
- Automatically verify the quality and accuracy of the storage media recording process
- Serialize the original and, if applicable, duplicate units of storage media, and time-date for the required period of retention the information placed on such electronic storage media
- Have the capacity to readily download indexes and records preserved on the electronic storage media to any medium acceptable under SEC and FINRA rules

The Firm was required to, and did, give notice 90 days prior to use if the format is *not* optical disk technology (such as CD-ROM).

In addition, because the Firm has contracted with an independent, off-site, third party download provider (not affiliated with the Firm and on a separate power grid than the Firm) who allows for the authorized downloading of Company information by the designated examining authority, the third party provider has notified FINRA that it will provide access or furnish data to regulators as stipulated in SEC Rule 17a-4(f)(3)(vii).

Notification required under Rules 17a-4(f)(2)(i) regarding the electronic storage method being employed as well as the certification by a third-party as to their system capabilities required under Rule 17a-4(f)(3)(vii) must be submitted to FINRA electronically via the Financial Notifications link on the FINRA Firm Gateway.

18 PRIVACY OF CUSTOMER INFORMATION

The Firm has adopted the following supervisory procedures in order to comply with Regulation S-P and to protect the privacy of customer financial information.

The CCO shall ensure compliance with these procedures, and shall use the following text, in addition to other materials, such as technical manuals and office procedures instructions, in order to comprehensively train employees with regard to their obligations under the regulation. Employees are encouraged to review Regulation S-P and NTMs 05-49 and 00-66 to augment their comprehension of privacy requirements.

Safeguarding Customer Records and Information. The Firm and its employees are required to attempt to:

- Ensure the security and confidentiality of customer records and information
- Protect against any anticipated threats or hazards to the security or integrity of customer records and information
- Protect against unauthorized access to or use of customer records or information that could result in substantial harm or inconvenience to any customer

The Firm’s offices are locked when the business is closed, as well as an electronic security alarm is activated; unauthorized access is prohibited. Customer records are maintained in locked cabinets and/or in electronic form that is protected by password entry only, and only those employees who are authorized, have been registered, and fingerprinted may have access to such records. Unauthorized access is strictly prohibited. The Firm’s computer system is protected by firewall, anti-virus software and backed up. Destruction of hard-copy confidential customer information is accomplished via a paper shredder or incineration. In the event the Firm wishes to purge electronic records or dispose of computer equipment the hard drive will be removed or magnetically erased to ensure that no such information can be retrieved by unauthorized parties. The threat of potential threats to the security of customer information is

addressed in the Firm's Business Continuity Plan, as are the Firm's information back-up systems—please reference that document for details. For a discussion of permitted communications via electronic means and protection of information, *see the sections called "Electronic Mail" and "Use of Electronic Media."* The principal designated above shall be responsible for overseeing the strict adherence to these policies.

18.1 Who Is Protected?

The regulation protects only individuals; thus, trusts, partnerships and corporations are not protected. Beneficiaries of trusts, 401(k) participants, shareholders of corporations or partners of partnerships are not protected. IRA beneficiaries are protected since they are individuals.

Institutional investors are not covered by the regulation and no disclosures are required to be made to institutional customers.

18.2 What Is Protected?

With certain exceptions set forth below, the Firm is required to protect "Nonpublic Personal Information" ("NPI") defined as "Personally Identifiable Financial Information" ("PIFI") acquired from the customer PLUS any list, description or other grouping of customers derived from using any PIFI. In general, PIFI would include all information of a personal nature supplied on account applications, questionnaires and other information provided in order to obtain accounts, obtain credit, enter into advisory or other relationships, etc.

NPI does not include information that the Firm has taken steps to verify and reasonably believes could lawfully be obtained from federal, state, or local government records, widely distributed media (telephone book, television, website,or radio program) or disclosures to the general public required to be made by federal state or local law.

In addition, regulation S-P protects account number information. The Regulation (with certain exceptions) prohibits the Firm under any circumstances from disclosing to any non-related third party ("NTP") other than a consumer reporting agency, a customer account number or similar form of access number or access code for a credit card account, deposit account or transaction account if such disclosure is for use in telemarketing, direct mail marketing or other electronic mail marketing. Regulation S-P also controls "re-disclosure and reuse" of any NPI.

Regulation S-P specifically requires the Privacy Notice to state that the Firm may disclose NPI about former customers as well as current ones. The Regulation does not require that a Privacy Notice be provided to any former customer.

THE FIRM AS A POLICY DOES NOT DISCLOSE ANY CONSUMER OR CUSTOMER NON-PUBLIC INFORMATION TO NON-RELATED THIRD PARTIES OTHER THAN IN CONTROLLED CIRCUMSTANCES AS SPECIFICALLY ALLOWED BY REGULATION S-P.

With certain exceptions (consult Rule) the Firm may not disclose NPI of any customer to any NTP without prior notice and consent by the customer. An NTP is any person, firm or corporation that is not controlled by, controlling or under common control with the Firm. NOTE: if any other government regulator treats the Firm as an "affiliate" of a company regulated by it, then the Firm is also an "affiliate" of that company for purposes of regulation S-P and may disclose NPI to that company.

18.3 Notice Requirements

Initial Privacy Notice Requirement. The Regulation requires the Firm to provide an Initial Privacy Notice to (a) every customer at all times and (b) every customer and "consumer" (see note below) where the Firm intends to disclose that

customer's NPI to any NTP under any non-exempt circumstances. Each recipient must also be provided with a "reasonable" time to "opt out" or not. *See the Forms Section* for form of Privacy Notice. **NOTE**: If the Firm *does not share* NPI, it does not have to provide initial and annual notices or opt-out choices to each "consumer"— that is, an individual who obtains or has obtained a financial product or service from the Firm that is to be used primarily for personal, family, or household purposes. Typically, a "consumer" has no further contact with the Firm other than the one-time delivery of products or services (versus a customer, who has an on-going relationship with the Firm). The designated Principal must ensure that this distinction is well understood and accurately applied.

The Initial Privacy Notice must be provided to the customer, with certain exceptions, AT OR BEFORE the time the Firm establishes the customer relationship or BEFORE the Firm makes any disclosures of that customer's NPI to an NTP. TheInitial Privacy Notice may be provided in written or electronic form (if the customer is able to acknowledge receipt electronically).

The exceptions are as follows: The Initial Privacy Notice may be provided at a "reasonable" later time where (a) the customer relationship has been established without the customer's knowledge or consent (i.e., an ACATS transfer or SIPC trustee transfer); (b) where to provide the Notice would substantially delay the customer's transaction and the customer has agreed to receive the Notice at a later date; or (c) where the NTP establishes an account or purchases securities on behalf of the customer.

"Opt Out" Provision. Because the Firm does not share NPI, it does not offer an opt-out provision in its Privacy Notice.

18.4 Books and Records Requirement

The Firm maintains records to evidence its delivery of Privacy Notices to customers. The initial Privacy Notice given to the customer(s), is evidenced by the acknowledgement section of the firm's New Business Transmittal Form, which the customer(s) must sign at account opening and is made a permanent part of the customer(s) file. The subsequent annual Privacy Notices delivery are evidenced by record, one or more of the following: paper, disc, electronic files), and written attestation from the mailing service vendor that the notices were mailed. Each "opt out" choice is perpetual unless affirmatively revoked by the recipient.

The Firm is committed to protecting the confidentiality, security, and integrity of all its customers' nonpublic personal information. Compliance with the procedures described herein is intended to ensure such protection.

18.5 Superseding Authorities

Regulation S-P does not supersede, alter, or affect any state law or regulation which provides protection which is greater than that created by Regulation S-P. Accordingly, the Firm should be aware of comparable provisions in states where it is doing business. Similarly, Regulation S-P does not modify, limit, or supersede the Fair Credit Reporting Act (15 U.S.C. 1681), particularly Section 603 that allows companies to provide selected credit information to lenders.

19 RIA/IAR SUPERVISION

The Firm permits RRs to act as independently registered IA's or as IAR's of third-party firms, subject to approval as follows:

- Registered Representatives must request and receive written permission by Compliance before engaging in advisory activities
- To be considered for approval, these RR's will be required to provide evidence that they are properly licensed and/or registered (or will become licensed and registered) to perform such activities

- Registered Representatives providing advisory services will be expected to maintain all required licenses and registrations
- Records related to the approval, licensing and registration of investment advisors will be maintained with the RR's personnel files

If any Registered Representative is in doubt about his or her status as advisor, the ICRR should immediately consult Compliance before transacting any business that could subject the ICRR to registration or licensing requirements. ICRR's should be aware that activities such as putting on seminars, publishing newsletters, engaging in financial planning, recommending other advisers, and making public appearances where securities (among other activities) are discussed may require advisory registration – particularly where the Representative has received compensation for the activity.

The firm requires that Registered Representatives owning, operating, licensed, or otherwise associated with an Investment Adviser (other than FFSI) as an approved outside business activity must conform to its disclosure and ongoing surveillance requirements.

In a series of Notice to Members (NTM) rulings (NTMs 91-32, 94-44 and 96-33), FINRA has made it clear that member firms (even if not registered as IA's) have supervisory responsibilities over the investment advisory activities of their Registered Representatives. This supervision requirement is based on certain FINRA Rules, including: 3270 (outside business activities); 3210 (private securities transactions or "selling away"); and 3260 (notice and approval of discretionary authority over client accounts). Note: The Firm does not permit discretionary accounts for its RRs not otherwise approved as IA's and those approved as IA's must attain specific CCO approval to engage in discretionary advisory activities.

19.1 Approval Process and Criteria

For proposed new advisory activity, the initial paperwork submitted to the Compliance Department must include:

- Signed and principal approved Investment Advisory Disclosure Form
- Signed and principal approved Outside Business Activity Form
- Name of advisory entity and location
- Description of the investment advisory business and current ADV Part 2
- Type of registration, i.e. state or SEC
- Types of products sold, or services provided, including any securities transactions
- Total number of clients and corresponding asset under management broken down, i.e. discretionary or non-discretionary
- Identify the custodian of customer assets
- Website address of the investment advisory entity
- Sample copy of Discretionary Account Agreement
- Copy of an Investment Advisory Agreement
- Copies of the business card and letterhead used by the investment advisory entity
- Additional documentation at the discretion of the CCO
- List of customers
- Any other material requested by the CCO

Registered Representatives are advised that they are NOT PERMITTED to engage in any activities in or with the proposed entity until the CCO renders written approval.

19.2 IA Supervision

Once approved, the following routine compliance requirements shall apply:

- On a monthly basis the representative must submit all incoming and outgoing correspondence for this advisory business with his correspondence from his registered representative business. This is due by the 15th of the following month.
- Prior to the use of all advertising/marketing materials for the advisory business (as well as your registered representative business), the representative must submit these to the Compliance Department for review and approval. This includes seminar and client appreciation events.
- On a yearly basis, the amended ADV Part 2 and a red-lined version of Part 1 for that year must be submitted to the Compliance Department for review.
- On an ongoing basis, all material changes to the investment advisory business must be reported to the CCO i.e. new associated persons or control persons, increase in assets or accounts of 10% or more, address change, changes in platforms, etc.

The CCO reserves the right to assess special inspection fees for Registered Representatives as deemed appropriate to enforce these procedures.

Qualified persons assigned by the CCO will perform ongoing supervision. The IA supervisory personnel will perform routine reviews that encompass all activity generated by the independent IA. The activity will be captured in various spreadsheets through electronic and other means, then sorted in any manner deemed appropriate by the IA supervisory personnel and the CCO. As an example, the IA supervisory personnel may review for particularly high or low transaction volumes, for questionable new deposits or withdrawals, for activity that may trigger a suitability review, and for any and all such trends as determined on a day-by-day or case by case basis. The IA supervisory personnel will retain a record of the reviews, which will be subject to scrutiny by the CCO on a regular basis. The record may include date(s), summary of the concern(s), external resources utilized in the review, conclusions reached, action taken and/or any related type of record such that the inquiry shall be deemed to be adequately documented.

The names and qualifications of the IA supervisory personnel including the date of their assignment to this responsibility will be maintained separately by the CCO.

19.3 Investment Advisor Representatives of Third-Party Firms

The Firm will generally prohibit a Registered Representative from becoming an IAR of an independent third-party advisory firm, (controlled by someone other than a Fortune affiliated person) based on the burden of oversight among other reasons. The Firm may, at the discretion of its CEO and CCO, consider exceptions to this general prohibition on a case-by-case basis only. Any such exceptions granted will be evidenced in writing from the CEO or CCO.

In instances where the RR/RIAs advisory clients are also the Firm's clients, and the RR/RIA is referring them to a particular money management program, the designated Principal may require the RR/RIA to obtain approval of such program for use and may also require the RR/RIA to secure a new account at the Firm for the client. Even if a client brokerage account is not opened and the individual advisor is not participating in securities transactions resulting from the advisory work, the Firm may impose supervision on the advisory activity, for instance, regarding on-going suitability. The designated Principal, when considering requests for approval of independent advisory services, will determine which additional requirements are necessary, on a case-by-case basis.

Specifically, with regard to IAR's of third-party firms, the Firm's designated Principal will receive and review information about third party advisory services/products. This review will include an evaluation of the third-party provider services or products and, to the extent feasible, the direct provider services or products furnished by the advisor to his clients. The Firm reserves the right to tell the RR seeking approval to use the "Third Party Provider" that it does not find the advisor's services or products acceptable.

19.4 Additional Supervisory Considerations.

The CCO is responsible for implementing review procedures that involve periodic reviews of transactions from statements, or from online services. Evidence is retained in a spreadsheet, or by such other means as deemed appropriate by the CCO.

The CCO reserves the right to review any and all such information as she requires in order to perform a comprehensive review. Failure to comply with the CCO's request may result in disciplinary action, up to and including withdrawal of approval for the activity and even termination.

Advertising materials, websites, seminars, newsletters, scripts, and other promotional material used by the RR/RIA in the conduct of business are subject to review by the designated Principal of the Firm under the ***Communications with The Public*** rules.

Individualized reports are treated as "customer Correspondence" and must be reviewed and approved by the designated Principal. Generalized reports are treated as "advertising" and are subject to pre-review by the designated Principal.

19.5 RR/RIA Record Keeping

Upon request of the CCO or a Supervisor, any RR with an approved independent RIA must provide the following:

- Dated Notices from RR/RIAs requesting approval of activities
- Dated responses relative to approval
- A list of RR/RIAs showing details of approvals
- A list of RR/RIA customers, including details of customers of the Firm and the RIA
- Copies of discretionary account agreements
- Correspondence file for RR/RIA customers
- Investment advisory agreements between each RR/RIA and customers
- Advertising materials and sales literature used by the RR/RIA to promote business, complemented by a process that shows whether proper FINRA filings have been made and whether the Internet is being used
- Supervisory procedures records, including designation of supervising Principals, record keeping, manuals, etc.
- Where an associated person receives compensation based on a share in customer profits and gains, a copy of the Firm's written authorization of such arrangements

20 CYBER SECURITY

20.1 Protection of Customer Information and Records

Fortune Financial Services has adopted procedures to protect customer information, including the following:

- Customers will be provided the Firm's Privacy Policy at the time an account is opened.
- Fortune Financial Services does not share or sell client information. Client information may be provided to service vendors to manage and monitor accounts, and as legally required to other third parties.
- Requests for customer information from outside parties such as regulators, the IRS, and other government or civil agencies, are referred to Compliance for review and response
- Computerized customer information is accessed by password protection or other established controls within the Firm's system to ensure only authorized persons gain access

- Employees (but not independent contractors) are prohibited from downloading sensitive information to personal devices
- PCs, laptops, and other authorized remote devices used by employees or independent contractors are requiredto be password protected
- All agreements with service providers include the third party's privacy policies
- The integrity of the Firm's internal computer systems, including privacy protection, is subject to regular review
- If required by law, regulators and/or law enforcement will be notified if customer information is stolen making it subject to potential identity theft

20.1.1 Social Security Numbers (SSNs)

SSNs are part of the information subject to protection of customer records. SSNs are obtained when accounts are opened, as required by federal law. SSNs are retained with account records and used for federally required year-end reporting of transactions and/or income. Access is limited to authorized employees (operations personnel, RRs, managers, *etc.*) and are provided to outsiders only when required by law or court/arbitration action or other authorized authority.

20.1.2 Remote Access to Customer Accounts

The majority of the Firm's independent contractors work remotely from offices other than the home office. Generally, they are not given access to internal systems. To gain access to firm systems, authorization must be requested from the CCO who will assign passwords and retain a record of authorized employees. Firewalls and other protections are in place to prevent intrusion by outsiders and breaches of confidentiality.

20.1.3 Disposal of Consumer Report and Customer Information and Records

Consumer report and customer information and records will be disposed of in a manner to prevent unauthorized access or use. Procedures include the following:

- Employees will be trained in proper disposal procedures.
- Information subject to these procedures will be identified in the Written Supervisory Procedures
- There will be secure removal of trash involving consumer report and customer information
- Paper information will be burned, pulverized, or shredded so that it cannot be practicably read or reconstructed
- Electronic information will be destroyed or erased so the information cannot be practicably read or reconstructed

The Firm and /or its Independent Contractors may engage a third party to provide disposal services and will notify the third party when client information is being provided for disposal in accordance with acceptable disposal procedures.

20.1.4 Control of Access

All employees and independent contractors are required to use passwords to access systems and records; these passwords must be periodically changed. Passwords are disabled when an employee terminates or is no longer an authorized person.

20.2 Encryption of Data

Data regarding private customer information transmitted to laptops or remote devices will be encrypted. Such data stored on laptops and other remote devices will also be encrypted.

20.3 Retirement of Equipment Containing Data

Computers or other data-retaining equipment that will be disposed of will be subject to clearing of hard drives and other repositories of data prior to disposal. If a computer will be re-assigned to someone who is not authorized to view data stored on that computer, the hard drive will be cleared prior to reassignment. Flash drives and other portable data devices that will no longer be used or will be reassigned will be destroyed or cleared of all data prior to disposal or re-use.

20.4 Compromised Accounts

Presently the Firm does not have any electronic access to customer accounts. However, should the Firm have such access in the future; the following procedures will be implemented. If the Firm identifies unauthorized access to customer accounts, Compliance will be immediately notified, and the following actions will be taken, as appropriate:

- Monitor, limit or suspend activity in the account
- Investigate the source of the intrusion and whether it is limited to an account or certain accounts
- Contact the SEC and the FINRA coordinator
- If appropriate, contact law enforcement such as the FBI or the U.S. Postal Inspector if mail is involved
- Contact relevant state regulatory authorities
- Determine whether specific notice to the customer is required under state law if personally identifiable information has been compromised
- Contact the customer and change access passwords and/or account numbers
- Determine whether should file a Suspicious Activity Report (SAR)

If firm data is compromised not involving customer accounts, Compliance (or outside counsel) must determine action to be taken which may include some of the actions listed above.

20.5 Employee Training

Employees will receive training/information regarding security policy at the time of hire and on an ongoing basis. Training will include:

- Employees' obligation to maintain confidentiality of customer information
- Use of encryption for laptops and other remote devices when retrieving personally identifiable customer information
- Precautions/prohibitions against using Wi-Fi where customer information could be compromised
- Use of passwords, periodic changing of passwords
- Avoiding display of confidential information on remote devices where the information could be compromised

21 SEC Regulations Best Interest (Reg BI) and Form CRS

21.1 Introduction

SEC Regulation Best Interest (Reg BI) establishes a new standard of conduct under the Securities Exchange Act of 1934 for broker-dealers and associated persons of a broker-dealer when making a recommendation of any securities transaction or investment strategy, involving securities, including account recommendations to a retail customer. When making a recommendation to a retail customer, the Registered Representative must act in the best interest of the retail customer at the time the recommendation is made, without placing their financial or other interest ahead of the retail customer’s interest.

This general obligation requires compliance with four specific component obligations.

- **Disclosure Obligation**: provide certain required disclosure before or at the time of the recommendation, about the recommendation and the relationship between the Registered Representative and a retail customer.
- **Care Obligation**: exercise reasonable diligence, care, and skill in making the recommendation.
- **Conflict of Interest Obligation**: establish, maintain, and enforce written procedures reasonably designed to identify and disclose conflicts of interest and to mitigate certain conflicts of interest, and
- **Compliance Obligation**: establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI.

The firm and Registered Representatives must also comply with new record making and record keeping requirements.

21.2 Terminology

Best Interest

The term 'best interest" is not defined in Reg BI and although best interest standard is not intended to be a fiduciary standard, it draws on key principals underlying fiduciary obligations and is generally a higher standard of care than FINRA's suitability standard. The SEC sought to create a standard to balance its goal of protecting retail investors while preserving to the extent possible, access to differing types of investment services and products (in terms of choice and cost).

Retail Customer

A "retail customer" is a natural person, or legal representative of such person, who:

- Receives a recommendation of any securities transaction or investment strategy involving securities from a broker-dealer
- Uses the recommendation primarily for personal, family or household purposes.

A "legal representative" of a retail customer includes the non-professional legal representative of a natural person, such as a non-professional trustee, power of attorney, or executor thar represents the assets of a natural person.

The SEC interprets that a retail customer uses a recommendation of a securities transaction or investment strategy involving securities when, as a result of the recommendation:

- The retail customer opens an account with FFSI regardless of whether FFSI receives compensation.
- The retail customer has an existing account with FFSI and receives a recommendation from FFSI, regardless of whether the FFSI receives or will receive compensation directly or indirectly because of that recommendation
- FFSI receives or will receive compensation, directly or indirectly because of that recommendation, even if that retail customer does not have an account at the broker-dealer.

A retail customer who uses the recommendation primarily for personal, family or household purposes means any recommendation to a natural person for his or her account would be subject to Reg BI, other than recommendations to natural persons seeking those services for commercial or business purposes.

Accounts for 'business entity accounts' are not retail customers and are therefore outside the scope of Reg BI. Such accounts are subject to a suitability standard of care.

Registered Representatives should contact the Compliance Department for assistance in determining whether a customer or a legal representative of a customer meets the definition of a retail customer.

Recommendation

The term "recommendation" is not defined in Reg BI, instead, the meaning of that term will depend on the surrounding facts and circumstances. A "recommendation" generally includes a "call to action" regarding securities or investment strategies involving securities (including recommendations to take plan distributions or in-service loans from plans). FFSI includes fixed index sales as a recommendation for Reg BI purposes. The more individually tailored the communication is to a specific customer or a targeted group of customers about a security or a group of securities, the greater likelihood that the communication may be viewed as a recommendation.

21.3 Reg BI Covered Recommendations

Reg BI applies to recommendations of any securities transaction or investment strategy involving securities. FFSI includes the sale of Fixed Index annuities as Reg BI recommendations. The determination of whether a broker-dealer or a Registered Representative has made a recommendation that triggers the best interest obligation turns on the facts and circumstances of a particular situation and is therefore not susceptible to a bright line definition. Factors considered in determining a whether a recommendation has taken place include whether the communication reasonably could be viewed as a call to action and reasonably would influence an investor to purchase annuities or mutual funds. The more individually tailored the communication to a specific customer about a security, the greater likelihood the communication may be viewed as a recommendation.

Additional factors to consider when determining if a recommendation was made include the following:

- If there is any doubt as to whether or not a recommendation was made, Registered Representatives should contact the Compliance Department for assistance. Unless there is a clear finding that no recommendation was made, the default will be to a finding that a recommendation was made to ensure compliance with Reg BI
- Reg BI does not apply to investment advice provided to a retail customer by a dually Registered Representative when acting in the capacity of an Investment Adviser Representative, even if the retail customer has a relationship with FFSI
- Reg BI is triggered in connection with recommendations of securities account types generally (e.g., to open an IRA), as well as recommendations to roll over or transfer assets from one type of account to another (e.g., a workplace retirement plan account to an IRA)

Account Monitoring and Implicit Hold Recommendations

Reg BI does not impose on a firm or Registered Representative a duty to monitor a retail customer's commission-based account; however, if a broker/dealer agrees to monitor a retail customer's account as part of its services, the terms of these services (including existence, scope, and frequency) must be disclosed, and the monitoring would have to be documented. Monitoring also creates an implicit recommendation to hold at the time of the monitoring, even if the hold recommendation is not made to the customer. For these reasons, FFSI prohibits Registered Representatives from providing agreed-upon account monitoring in commission-based accounts, including direct-held accounts.

Registered Representatives may voluntarily, and without any agreement with the customer, review the holdings in a retail customer's account for the purposes of determining whether to provide a recommendation. This voluntary review is not considered to be "account monitoring" nor would it create an implied agreement with the retail customer

to monitor customer accounts. Any investment recommendation made to a retail customer because of any such voluntary review would be subject to Reg BI.

Account Type Recommendations (Commission vs Advisory)

For a Registered Person who is both a Registered Representative and an IAR making an account type recommendation to a retail customer, the Registered Person should take into consideration all types of accounts that FFSI offers, as well as what their RIA offers when making the recommendation of an account that is in the retail customers best interest. For a Registered Person who is registered only a Registered Representative, Reg BI will apply to account recommendations, but the Registered Representative must take into consideration only the accounts available through FFSI. The Registered Representative can only recommend a FFSI account if the Registered Representative has a reasonable basis to believe that the recommended account is in the best interest of the retail customer.

Mutual Fund and Annuity Recommendations

Registered Representatives must deliver to an existing customer who is a retail customer the current Form CRS before or at the time of recommending or providing a new account service that relates to a retail customer's investment options or capabilities.

To evidence delivery of the Form CRS, Registered Representatives must on the Form state who the Form CRS was delivered to, Delivery date of the Form. The Registered Representative must sign the form.

Form CRS must be submitted to FFSI compliance department.

21.4 Disclosure Obligation Regulations

The Disclosure Obligation requires a broker/dealer and its Registered Representatives to disclose fully and fairly in writing, at or before the time of the recommendation, all material facts about conflicts of interest relating to the recommendation (including how a broker-dealer and its associated persons are compensated) and about the scope and terms of the relationship with their tail customer. The obligation requires firms and Registered Representatives to provide full and fair disclosure which should give sufficient information to enable a retail investor to make an informed decision regarding the recommendation. Minimum required disclosures include the fact that the firm and Registered Representative are acting in a broker/dealer capacity, material fees and costs the retail customer will incur, and the type and scope of services provided to the retail customer, including any material limitations on the securities or investment strategies that may be recommended to the retail customer. Post-recommendation disclosure and oral disclosure are permitted in limited circumstances.

In other instances, disclosures should be tailored to a particular recommendation if the standardized disclosure does not sufficiently identify the material facts about a conflict of interest presented by the recommendation. If a Registered Representative knows "or should have known" that the disclosures provided to the retail customer are insufficient to describe "all material facts" then the Registered Representative has an obligation personally to supplement the disclosures.

Such an obligation would arise, for example, when a Registered Representative is licensed solely as a FFSI Registered Representative, but not to offer advisory services as an IAR, these material limitations would need to be disclosed by the Registered Representative.

Oral Disclosures

Although the disclosures necessary to satisfy the Disclosure Obligation must be in writing, in certain circumstances, Registered Representatives may satisfy the Disclosure Obligation in part by making supplemental oral disclosure not

later than the time of the recommendation. If an oral disclosure is provided, the Registered Representative must maintain a record of the disclosure. The Registered Representative must create a record in the client file, or through some other consistent, auditable procedure to comply with this requirement. Such records must reflect the content of the oral disclosure and date of disclosure. Examples of permissible oral disclosures include the disclosure of a potential conflict of interest related to a Registered Representative's outside business activity, such as being an Investment Advisory, or a limitation based on registrations and qualifications.

Disclosure After the Recommendation

There are limited instances where existing regulations permit disclosure after the recommendation is made. Registered Representatives may satisfy the Disclosure Obligation regarding the information contained in the applicable disclosure document by providing such document to the retail customer after the recommendation is made.

21.5 Care Obligation Requirements

The Care Obligation requires broker/dealers and Registered Representatives to exercise reasonable diligence, care, and skill when making a recommendation, including considering risks, rewards, and costs. Compliance with the Care Obligation is determined based on the facts and circumstances of the recommendation at the time the recommendation is made (and not in hindsight); however, cost must always be considered in connection with making a recommendation. The Care Obligation is based in large measure on existing suitability requirements and includes the same three subsidiary criteria for suitability set forth in FINRA Rule 2111: reasonable basis, customer-specific, and quantitative suitability. Reg. BI, however, expands these requirements in several ways, as described below. In addition, compliance with the Care Obligation requires a broker/dealer or Registered Representative to consider "reasonably available alternatives" when making a recommendation.

Reasonable Basis

The Care Obligation builds upon a broker/dealer's existing "reasonable-basis suitability" obligations and requires that the broker/dealer "undertake reasonable diligence, care and skill to understand the nature of the recommended account type, security or investment strategy, as well as the potential risks, rewards and costs of the recommended account type, security or investment strategy, and have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail customers based on that understanding". This inquiry should generally include such considerations as "the security's or investment strategy's investment objectives, characteristics (including any special or unusual features), liquidity, volatility and likely performance in a variety of market and economic conditions; the expected return of the security or investment strategy; as well as any financial incentives to recommend the security or investment strategy."

Customer Specific

The Care Obligation also requires that the Registered Representative have a reasonable basis to believe the recommendation is in the best interest of the particular retail customer receiving the recommendation based on the retail customer's investment profile and the potential risks, rewards and costs associated with the recommendation.

One key focus of the Care Obligation is the focus on the broker/dealers and Registered Representative's analysis of the cost associated with a recommendation. The SEC stressed that while cost is always a factor that must be considered, it is not dispositive and should never be the only consideration. The SEC's inclusion of cost in the rule text was not intended to 'limit or foreclose the recommendation of a more costly produce that a broker/dealer has a reasonable basis to believe is in the best interest of a particular customer."

Recommending Account Types

The Care Obligation requires firms and their Registered Representatives to have a reasonable basis to believe that a recommendation to a retail customer to open a particular type of account is in the customer's best interest at the time of the recommendation and does not place the financial or other interests of the Registered Representative ahead of the interests of the retail customer. In recommending account types, including an account rollover, Registered Representatives must consider:

- The services and products provided in the account
- Projected costs
- Alternative account types available
- The services requested by the retail customer
- The retail customer's investment profile

A Registered Person does not need to consider an advisory account for a retail customer when the Registered Person is registered only as a broker-dealer Registered Representative however, the Registered Person is nevertheless required to have a reasonable basis to believe that the recommended account type is in the best interest of the retail customer.

Quantitative

A Registered Representative must have a reasonable basis to believe that a series of recommended transactions, even if each transaction is in the retail customer's best interest when viewed in isolation, is not excessive and is in the retail customer's best interest. As part of this determination, the recommendation(s) must be made considering the retail customer's investment profile. Like the other two components of the Care Obligation, this requirement is based on FINRA suitability obligations, often referred to as "quantitative suitability."

Evidencing Compliance with the Care Obligation

Registered Representatives will evidence compliance with the Care Obligation in the following ways (as applicable):

- Completion of, and customer signature obtained on, the applicable product-specific disclosure form (e.g., Variable Annuity Disclosure, Mutual Fund Disclosure Form), including a written explanation as to why the recommended transaction is in the customer's best interest
- Account Information Form signed by the customer, the CIF Form and New Transaction Application
- Product sponsor application completed and signed by the customer
- Retirement Plan Rollover Disclosure initialed by the customer to evidence the process used to assistthe customer in making an informed rollover decision
- Switch Disclosure Form signed by the customer evidencing the appropriateness of a switch transaction, if applicable

21.6 Conflict of Interest Obligation Requirements

The Conflict-of-Interest Obligation applies solely to the broker/dealer and not to Registered Representatives. To satisfy the Conflict-of-Interest Obligation, FFSI has established, maintains, and enforces written policies and procedures reasonably designed to address conflicts of interest associated with its recommendations to retail customers.

Specifically:

- Identify and at a minimum disclose, pursuant to the Disclosure Obligation, or eliminate all conflicts ofinterest associated with such recommendations

- Identify and mitigate any conflicts of interest associated with such recommendations that create anincentive for Registered Representatives to place their interest or the interest of the broker/dealer ahead of the retail customer's interest
- Identify and disclose any material limitations, such as a limited product menu, placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations, and prevent such limitations and associated conflicts of interest from causing the broker/dealer or the Registered Representative to place the interest of the broker/dealer or the Registered Representative ahead of the retail customer's interest
- Identify and eliminate prohibited sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sale of specific securities or specific types of securities within a limited period of time.

Specifically, FFSI reviewed conflicts of interest in the following areas to determine if they should be eliminated, mitigated, or disclosed:

1. ICRRs receive a commission from product sales
2. FFS can only offer limited products
3. A potential Conflict of Interest is that certain higher producing representatives are invited to an annual leadership council meeting.

How is this mitigated:

1. The first is mitigated by not approving any sale that is not in the client's best interest. ICRRs must submit not only their recommendations but also the reasoning to explain that the sale is in the best interest of the client.

   There is no incentive for sales of specific products.

   FFS does not have a preferred product or vender list
2. ICRRs have the option of providing other services or products through an approved Outside Business Activity. Even if that means that FFS will not receive any compensation.
3. FFS compliance department reviews every ICRRs transactions prior to submission to the mutual fund or insurance companies. The compliance department monitors to see if reps are submitting sales to be invited to the Leadership Council event.

   The purpose of the Leadership Counsel event is education by interacting with peers and senior management.

21.7 Compliance Obligation Requirements

The Compliance Obligation requires FFSI to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI. This obligation applies solely to the firm and not to Registered Representatives.

FFSI established, maintains, and enforces written policies and procedures reasonably designed to achieve compliance with Regulation Best Interest. Factors that were considered by FFSI when adopting Reg BI policies and procedures include:

- The nature and complexity of firm operations
- How to prevent violations from occurring
- The detection of violations that may have occurred
- Promptly addressing any violations that may have occurred

Additional factors include:

- Controls to prevent violations from occurring
- Use of risk based supervisory approach
- Detection and remediation of Reg BI non-compliance
- Initial and ongoing required Reg BI training to ensure awareness of Reg BI requirements
- Periodic review and testing of Reg BI policies and procedures to determine whether revisions are needed.

The Chief Compliance Officer, along with the Compliance Officers reviewing transactions shall review daily any transactions that are submitted to ensure that the recommendation is expected to be in the customer's best interest. This review shall include a review of the Fortune disclosure documents, third party investment reports (such as Morningstar Annuity Intelligence). The review shall also include a review of the Form CRS that is required to be submitted with all transactions to ensure that the Form is correct and is properly provided to the client. Any issues with Regulation Best Interest are to be brought to the Chief Compliance Officer and further review and corrections, if applicable.

For the transaction, care must be given to review the reason for the recommendations, the costs associated with the current and proposed recommendation, and that the written rationale for the recommendation is clear and appropriate for the client(s) based on the information provided.

Any costs or features associated with the current and proposed investments must be verified in writing, or in conversation with the vendor(s) involved. If using vendor information, the time, date, and name of the person at the vendor providing the information must be listed. Transactions cannot be approved without verification of fees and features of the current and proposed investments. Compliance Officers shall review to ensure that the recommendation meets the client's needs and best interest by reviewing the client's financial information provided on the fortune disclosure documents. For example, does the recommendation meet the client's best interests depending on the client's stated financial situation, time horizon, risk tolerance, and tax bracket.

The Compliance Department shall ensure that the recommendation is in the best interest of the client(s) that the commission being charged is not excessive, and that client is made aware of the features of current and proposed investment.

Reviews of transactions are done daily. The firm reserves the right to "reject" a transaction if the recommendation does not appear to be in the client's best interest.

The firm also has the option of sending a letter to a client stating that the firm does not feel that the recommendation is in the client's best interest. The letter will contain the advantages and disadvantages of the transactions, and state that while the firm does not feel that the transaction is appropriate, the client doe shave the right to override the firm's decision and will acknowledge the pros and conns of the recommendation. The client will acknowledge that firm's concerns but may sign off on the letter stating that the client wishes to continue with the proposed transactions.

21.8 Record making and Recordkeeping Requirements

FFSI must meet record-making and recordkeeping requirements with respect to certain information collected from or provided to retail customers in connection with Reg BI which builds upon existing record making and recordkeeping obligations.

For each retail customer to whom a recommendation of any securities transaction or investment strategy involving securities is or will be provided, FFSI is required to prepare and maintain a record of all know-your-customer information underlying recommendations collected from the retail customer pursuant to Reg BI, as well as the identity

of the Registered Representative, if any, responsible for the account.

Using a risk-based approach, FFSI requires product-specific and other disclosure forms to support recommendations. Registered Representatives use these forms to record the basis for the recommendation and to describe how the recommended transaction is in the client's best interest. These forms are reviewed and are approved by the Compliance Department prior to effecting the transaction.

FFSI will retain records of the information collected from or provided to each retail customer for at least six years after the earlier of the date the account was closed or the date on which the information was replaced or updated.
Sec Rule 17a-3(a)(35) and Rule 17a-4

21.9 Client Relationship Summary (Form CRS)

The SEC adopted Form CRS in conjunction with Reg BI. Form CRS is a key part of the disclosure regime the SEC outlined. The form is designed to assist retail customers in deciding whether to establish an account or to engage a particular firm or Registered Representative. Form CRS is provided in addition to, and not in lieu of, current disclosure requirements. The Form CRS contains the following required sections:

- Introduction
- Relationships and services
- Fees, costs, conflicts, and standard of conduct
- Disciplinary history
- Additional Information (contacts and references to additional disclosures) to the Conversation Starters, Registered Representatives should contact the Compliance Department.

The CRS also contains SEC required "Conversation Starters" which are specifically formatted questions for clients to consider. Registered Representatives should be aware of each Conversation Starter and be prepared to respond to the questions asked by clients. Regarding a client inquiry related to the Registered Representative's disciplinary history, if applicable, the response should be consistent with the Registered Representative's reported disclosure reflected on FINRA Broker Check. For assistance with proposed responses to the Conversation Starters, Registered Representatives should contact the Compliance Department.

CRS Delivery Requirements

FFSI's two-page CRS form applies to commission-based accounts and is required to be delivered at several points across the retail customer life cycle including:

- Prospecting
- Onboarding
- Rollover
- Account type change

Form CRS delivery requirements apply to retail investors. Business entity and plan level retirement accounts are out of the scope of Reg BI.

Form CRS Re-Delivery Requirements

Form CRS must be re-delivered to existing retail customers under the following circumstances:

- When opening a new account that is different from the retail customer's existing account(s). This would involve a different account registration and a CIF form is required.
- Recommending that the retail customer open an IRA, or add to an existing IRA, funded with assets rolled over from an employer-sponsored retirement plan.

Prospective Clients

FSSI makes a standalone copy of the Form CRS available for delivery to prospects. Should a Registered Representative meet with a prospective retail customer in person, the Form CRS must be provided at the earliest opportunity during the meeting.

Additional considerations for prospects include:

- Whether your communication is subject to Reg BI depends on whether you make a recommendation
- Refrain from making a "recommendation" prior to delivery of Form CRS
- Refrain from making a recommendation until you have enough information about the customers profile to satisfy the Care Obligation
- Do not allow communications intended as "education" cross the line into "recommendations"

Additional Delivery Requirements

- Deliver Form CRS to all existing retail customers within 30 days of receiving Form CRS
- Posting the CRS on the firm website
- Providing the CRS within 30 days of a client request
- Amending and delivering within 60 days whenever information in the CRS becomes materially inaccurate.
  The Chief Compliance Officer or it's designee shall maintain records to ensure the firm complies with the delivery requirements regarding the Form CRS, including providing the Form CRS within 30 days of the approval of the transactions, that the Form CRS is provided to customers or potential customers as required, and within 60 days to all existing clients when revisions are made to the Form CRS.

22 Department of Labor

22.1 Department of Labor Rule PTE-2020-02

In December of 2020, the Department of Labor (DOL) issued a new class exemption that provides relief to fiduciaries who provide investment advice to employee benefit plans, plan participants, and owners of individual retirement accounts (IRAs) from the prohibited transaction rules under the Employee Retirement Income Security Act of 1974. This exemption, called Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") outlines rules that will allow a Financial Institution (defined as a registered broker-dealer, investment adviser, bank, or insurance company) and its Financial Professionals to provide fiduciary investment advice and receive reasonable compensation for that advice.

With the release of PTE 2020-02, the DOL also provided a new interpretation of the 1975 "five-part test" for fiduciary investment advice under ERISA. In addition, the DOL revoked prior guidance (Advisory Opinion 2005-23A, also known as the Deseret Letter) that states IRA rollover recommendations by a person who is otherwise not a fiduciary does not constitute fiduciary investment advice.

When is it Effective?

The new DOL changes became effective on February 16, 2021, but the DOL provided non-enforcement relief until January 31, 2022, meaning that compliance will be required starting February 1, 2022. Furthermore, the documentation requirement to explain the specific reasons for a rollover recommendation (to be shared with clients) has been pushed back until after June 30, 2022.

What Does it Mean?

In rolling back prior guidance that excluded IRA rollovers and reinterpreting the five-part test, the DOL has expanded the number of Financial Professionals that may be deemed to be ERISA fiduciaries and may need to use one of the available exemptions in order to be compensated for the sale of annuities to retirement plan and IRA clients. For example, the five part test is met by the Financial Professional only if they: (1) render advice as to the value of securities or other property, or make recommendations as to the advisability of investing in, purchasing, or selling securities or other property; (2) on a regular basis; (3) pursuant to a mutual understanding; (4) the advice will be a primary basis for investment decisions; and (5) the advice will be individualized to the plan or IRA. The DOL has further stated that "regular basis" can be met with an initial recommendation and "primary basis" can be met if advice is important and could determine an outcome. As such, Financial Professionals should ensure they are following the exemption available, PTE 2020-02 when recommending securities/insurance products to retirement plans and IRA clients.

What is PTE 2020-02?

The Exemption provides conditions under which Financial Institutions and its Financial Professionals can provide fiduciary advice to clients and receive reasonable compensation. Those conditions (generally) include the following:

- Impartial Conduct Standards: Comprised of (i) investment advice must be provided in the "best interest" of the client; (ii) any compensation received, directly or indirectly, be reasonable; and (iii) any statements to the client about the recommended transaction or other relevant matters is not materially misleading.
- Written Disclosure: Prior to engaging in a transaction, the client must be provided a written disclosure: (i) acknowledging that the Financial Institution and its Financial Professionals are fiduciaries under ERISA and the Internal Revenue Code, as applicable; (ii) describing the services to be provided; and (iii) describing any material conflicts of interest; (iii) the costs associated with the existing and proposed account must be disclosed to the client.
- Rollover Analysis and Disclosure: Document and disclose the specific reasons that a recommendation to roll over assets is in the client's best interest. This requirement extends to recommended rollovers from an ERISA plan to another ERISA plan or to an IRA; from an IRA to an ERISA plan or to another IRA; or from one type of account to another (e.g., from a

commission-based account to a fee-based account).

- Policies and Procedures & Conflict Mitigation: The Financial Institution must establish, maintain, and enforce written policies and procedures that mitigate conflicts of interest and prudently designed to ensure that the Financial Institution and its Financial Professionals comply with the Impartial Conduct Standards; and
- Retrospective Review: The Financial Institution must conduct a retrospective review, at least annually, that is reasonably designed to assist the Financial Institution in detecting and preventing violations of, and achieving compliance with, the Impartial Conduct Standards and the policies and procedures governing compliance with the Exemption.
- Recordkeeping: The Financial Institution must comply with certain recordkeeping requirements (e.g., records of compliance for six years). transactions with retirement plans and IRA clients who may not be working directly with a Financial Institution (i.e., requirement for PTE 2020-02). of its business.

What's Ahead?

One of the requirements for financial service firms to notify clients that engage in transactions involving qualified plans (such as 401(k)s, pensions, IRA, SEP-IRA, SIMPLE IRA) to be notified of the firm's responsibilities regarding this rule. A copy of the letter can be found on Fortune's website at https://fortunefinancialservices.com/.

A copy of this letter will be provided to each client engaging in a qualified plan transaction as an attachment within the Welcome packet that Fortune Financial Services, Inc. sends to each new client. The letter will also be provided to an existing client that engages in a qualified plan transaction.

These forms include one form that will address moving funds from an employer sponsored retirement plan to an IRA, and another form that addresses moving from one IRA to another IRA. These forms will include the rationale for making the transactions, as well as the internal fees and costs associated with each plan. Note that it is your responsibility to provide the correct internal fees and costs for both the resigning plan, as well as the proposed IRA account. For employer sponsored retirement accounts, there is an annual Participant Disclosure Notice that lists the expenses of the retirement plan, as well as any mutual fund or other investment fees. Fortune Financial Services is requiring that these fees be provided to verify the fees listed on the required disclosure forms. Fortune will take steps to verify the fees listed on disclosure forms either by reviewing the disclosure documents provided or having the registered representative obtain the documents or information required to verify the stated fees.

Fortune and it's CCO (or designated persons) will conduct an annual review of the transactions related to ERISA accounts and other accounts covered under this Rule. The review will focus on confirming that the required policies and procedures are followed as required by PTE-2020.