

Integrity Brokerage Services, Inc.

Policies and Procedure Manual

02/2012

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I. SUPERVISORY SECTION

A. INTRODUCTION

Integrity Brokerage Services, Inc. (IBSI) will meet the requirements of the FINRA Conduct Rules, applicable securities laws, rules, regulations, and statements of policy. The procedures set forth in this manual shall govern the supervision of the activities of officers, employees, Registered Representatives (Reps) and associated persons. Each person, in the future, granted supervisory responsibility in this manual and the attached "Designation of Supervisory Responsibility" schedule shall be responsible for ensuring that all laws, regulations, rules, and policies applicable to IBSI's business are put into practice. This requires that each principal be familiar with and remain current concerning all such laws, regulations, and policies. Such person must comprehend and be thoroughly familiar with this document, as amended from time to time, which shall serve as a guide for carrying out their supervisory role.

The primary location for supervision of the company's activities is the home office located at:

Integrity Brokerage Services, Inc.
 1945 Stewart St
 Oceanside, CA 92054
 800 863 7511 ph
 760 874-7506 fax

The "Designation of Supervisory Responsibility" outlines all supervisors and their areas of responsibility. The immediate supervision of the day-to-day activities of Representatives in registered branch office locations will be the responsibility of a designated Office of Supervisory Jurisdiction (OSJ) principal. Section MM includes a list of all OSJ offices and the corresponding Principal responsible for supervision. Section NN lists a roster of Registered Persons and the addresses where they conduct business. The CCO will update these sections annually or as needed.

B. REGISTRATION REQUIREMENTS

The Form BD will be maintained with all states and regulatory agencies to accurately reflect business activities, branch locations, and personnel, and to register IBSI in all states where business is conducted. The Chief Executive Officer (CEO) will meet the requirements of each individual jurisdiction in initial filings, annual renewals, and amendments as necessary.

As branch offices are added they will be designated as either an OSJ or a non-OSJ branch reporting to an OSJ branch. The CEO will be responsible for keeping the FINRA, state regulatory agencies, and securities divisions apprised of Representatives' correct addresses and branch locations, when notified by the Representatives to do so, by updating the CRD system with the new information.

An OSJ is an office, designated by the home office, with a qualified principal in which the following activities may occur:

- Final acceptance (approval) of new accounts on behalf of IBSI;
- Review and endorsement of client orders (Rule 3010, Rules of the Association); and
- Supervision of the activities of persons associated with IBSI according to the branch manager checklist.

The Branch Manager and the CCO will monitor the following at OSJ branch locations to ensure that:

- i) The SIPC decal is displayed in a prominent location;
- ii) The IBSI name is displayed in a prominent location;
- iii) Forms are being promptly submitted through IBSI's Compliance Department to register Registered Representatives with the FINRA and other regulatory agencies;
- iv) Proper sales practices and policies are being followed; and
- v) The necessary books and records are being retained.
- vi) The CEO will, based on information provided by the Representative, ensure that the proper registration is enacted with each state in which the Representative does business. It is the Representative's responsibility to advise IBSI of the state(s) in which he/she requires registration. Failure to adhere to the various state licensing requirements may result in fines and sanctions according to IBSI's internal policies. State licensing renewals will be processed in accordance with the requirements of the various jurisdictions. A review will be made to determine if additional filings are necessary to complete the renewal on the state level. The CEO will ensure that renewals are affected properly.
- vii) Under the supervision of the CEO, IBSI will maintain a fidelity bond with \$100,000 of coverage with \$95,000 in addition to the required minimum net capital (minimum \$5,000), the CEO will notify the FINRA if the policy is terminated, modified or canceled.
- viii) The CEO, will review IBSI's fidelity bond on the anniversary date of the bond; to ensure that coverage requirements are met under all insuring agreements. Further, the coverage must extend to all associated persons, including independent contractors.

- ix) The CEO is responsible for determining that financial statement filings are made on a timely basis, including the filing of annual reports. The CEO will also accurately prepare and file FINRA and SIPC assessment forms, and pay assessments on a timely basis.
- x) The CEO is responsible for filing abandoned property reports, as well as necessary annual reports, personal property returns, stockholder reports, and franchise tax returns, in accordance with the requirements of each jurisdiction.

C. REPRESENTATIVES

The CEO and CCO will supervise the hiring, conduct, and actions of IBSI Representatives. Particular attention will be paid to the following:

- The Form U-4 will be completed prior to registration. In accordance with FINRA requirements, fingerprint cards will be submitted for FBI verification. Employment history and references will be verified by the CCO with an attestation of the investigation noted on the U-4. IBSI's Outside Business Activity Form must be completed by the Representative and reviewed by the CEO & CCO prior to the decision as to whether to sponsor the applicant's registration. It is the responsibility of the Representative to keep the Branch Manager and CCO of changes to information required on the U-4.
- Before the Representative solicits or conducts securities transactions, the CCO will ascertain that the Representative, and in some cases the branch office, have been approved by the FINRA/CRD and the securities regulator for the state in which business will be conducted. The Representative will be notified of such approval.
- Representatives with disciplinary histories who are subject to special supervision requirements will be categorically rejected from registration by CCO. No Registered Representatives will be licensed with IBSI if they are subject to heightened supervision or a statutory disqualification.
- Prohibition against the "parking" of a securities license will be enforced by CEO and all registered persons will be reviewed annually for a final decision. The guideline used by the CEO to determine whether a license is being "parked" will be for all Registered Reps who produce under \$10,000 in gross production per year. If a broker produces under this amount the license will be deemed as being "parked" with the firm and registration will be terminated. Any exceptions to this guideline will be given on a case by case basis and evidenced in writing.
- A copy of IBSI's Policies & Procedures Manual will be placed on the IBSI website for each Representative to read. All Reps will acknowledge in writing that he has read and understood the Manual.
- All Representatives personal brokerage accounts with other broker/dealers must be approved by the CCO prior to opening and supervised by the CCO. All outside business activities the Registered person may participate in away from IBSI, whether for compensation or not, must be disclosed immediately.
- The "Independent Contractor Agreement," which contains Schedule "A" outlining the fees and clearing costs, must be completed and signed prior to final approval.
- When a Representative resigns or his registration with IBSI is terminated, the Representative's OSJ shall promptly forward to the CEO a notice of resignation. The CEO will then submit a U-5 to the FINRA within 30 days, disclosing the reasons for the termination, and a copy will be sent to the Representative and evidenced by notating U4/U5 compliance spreadsheet.
- IBSI will enforce the rule that any unregistered person in a branch who handles client checks and/or securities, or posts entries to books of original entry, must submit fingerprints to the CCO. Further, any unregistered person must be supervised by the OSJ to assure that he/she

does not solicit or accept transactions from clients, because doing so requires FINRA registration.

D. CLEARING AGREEMENT AND RESPONSIBILITIES

IBSI, a fully disclosed Broker-Dealer firm, utilizes Penson Financial Services, Inc. (“Penson”) for clearing services. The following are clearly defined responsibilities of IBSI and Penson.

- i) Opening, approving and monitoring customer accounts will be the primary responsibility of IBSI.
- ii) Extension of credit will be given and monitored by Penson.
- iii) Maintenance of books and records will be required of both firms depending on the particular blotter or ledger required.
- iv) Both firms will handle receipt and delivery of funds and securities, but IBSI will promptly forward all funds and securities to Penson for deposit or safekeeping.
- v) Safeguarding of funds and securities will be handled by Penson.
- vi) Confirmations and statements will be created and sent out by Penson.
- vii) Acceptance of orders and execution of transactions will be the responsibility of Penson. However, IBSI has the right to reject orders it feels is not in the best interest of the client or is a violation of IBSI policies and procedures.
- viii) Penson must forward all customer complaints it receives on behalf of IBSI and notify the customer, in writing, that it has received the complaint, and that the complaint has been forwarded to IBSI and the FINRA.

Any other duties or responsibilities will be outlined in the clearing agreement between IBSI and Penson.

E. NEW ACCOUNT PROCESSING

A request to open any type of new account must be accompanied by a completed IBSI Client Agreement and Client Account Form, which shall be reviewed by a principal within one day of being received by the IBSI home office or an OSJ location. The principal will attest to his review, by signing both the Client Agreement and the Client Account Form and any other required forms, depending on the account.

1. Cash Accounts Required Documentation
 - i) IBSI Client Account Form
 - ii) IBSI Client Agreement
 - iii) Copy of government issued picture identification

The Representative of record and OSJ shall also ascertain whether the client is of legal age, verify name according to Patriot Act rules by reviewing driver’s license or other government issued document with photo, whether he is an employee of another broker/dealer, and whether he has a greater than 10% ownership in a publicly traded company. Attaining client financial information is also required to understand clients’ suitability. The OSJ shall also determine whether the account has third-party discretion. Discretionary accounts (with the Rep having discretion) are not allowed, unless approved in writing by the CCO or CEO and the necessary Discretionary Trading Form is signed by the client and of file.

The client must sign the Client Agreement, which includes a pre-dispute arbitration agreement. By signing this agreement, the client is verifying the accuracy and completeness of the information

provided and is acknowledging his receipt of the arbitration agreement. No account will be accepted if the client refuses to sign the Client Agreement.

2. Margin Accounts

The same forms must be used for margin accounts; however, the client must show positive affirmation wishing to participate in a margin account by initialing the Margin Account box. For all margin accounts a copy of the "Margin Disclosure Statement" will be mailed or emailed to the client and disclose all required language for compliance with SEC Rule 15c3-3, by the Operations Specialist. This "Statement" will be changed as dictated by regulatory changes by the CCO.

3. Option Accounts

The same forms will be used for option accounts, however, the Option Account box must be checked and the corresponding section of the Client Account Form must be completed for the type of option trading requested, including client and CCO signature.

*Naked Call Options will not be allowed, unless approved in writing by the CCO. For accounts that engage in Naked Put Options the minimum net equity requirement is \$25,000 for initial and maintenance of such account. An exception can be made to the minimum only by the CEO in writing at the time the account is opened.

All options accounts will be approved by the Senior Registered Options Principal (CCO) prior to the initial order or within 2 business days with prior approval. Further, the following information must be provided:

- Copy of the "Characteristics and Risk of Standardized Options" must be given to clients' prior or at the time of the first option trade or account opening. The CCO will send out the booklet via mail or email and keep a log of all such mailings.
- For accounts that will engage in short option trading the "Special Statement for Uncovered Option Writers" will be also be sent to these clients at the time the account is opened.
- Any time there is an amendment or change to the "Characteristics" or "Uncovered" statement the new amendment will be delivered to all current option accounts by the CCO.
- Each client must be interviewed by the Representative and complete details of the client's income and net worth must be supplied to determine if option trading is appropriate.

4. Standard New Account Processing Procedures

IBSI will process all new accounts in the following manner:

- Clients will review, complete and sign all required documents including account specific documents (i.e. IRA, Corporate, Trust forms) and submit proper identification to the Registered Rep.
- Registered Rep will review all required forms for accuracy with a copy of the prospective client's government issued identification and forward to the Branch Manager for review and acceptance of account if appropriate.
- Branch Manager will review and sign all required forms and forward to CCO for review of Options Account if Options Account is requested, then forward to IBSI's Operations Department for account processing.
- CCO will verify that all required account specific documents have been submitted and complete. Using the copy of the client's government issued identification, the CCO will check SDN lists provided by OFAC and Department of Treasury to ensure the prospective client is not a blocked individual.
- The account will be established by the Operations Dept. by forwarding paperwork to Penson's New Accounts department for processing.
- An electronic client file will be established for the client by the Operations Dept where a copy of all account records will be kept. However, a traditional paper file is also maintained.

- Special precautions will be taken when establishing accounts with a Post Office Box or Foreign Address as the primary address. In these instances, IBSI will primarily rely on MIS (3rd Party Vendor) to provide background information on the client. If the background check provided is insufficient or does not satisfy the concerns addressed, the CCO will contact the client via correspondence or telephone to verify that the information provided is accurate.

F. SUPERVISION OF ACCOUNTS

In compliance with FINRA requirements, the OSJ shall promptly review each transaction, evidencing his approval by initialing either the sales blotter or the order memorandum. The branch manager shall review each transaction for:

- Large purchases of "out of the money" contracts close to expiration
- Unusual or uneconomic strategies
- Suitability of recommendation
- Excessive purchases and sales
- Excessively large positions
- Substantial losses
- Unusual transactions
- Excessive options trading
- Level of option approval

Order Memorandums require instructions given to the broker/dealer including information required by SEC Rule 17a-3(a)(6). Order memorandums will include the following information:

- Customer Name or Account Number
- Buy or Sell Instruction
- Quantity
- Symbol
- Price
- Whether the Rep holds Discretionary Authority over the account
- Rep Code
- Commission Charged
- Trade Date
- Settlement Date if other than T+3 for securities or T+1 for Options
- Trade Type (Cash, Margin or Short)
- Affirmative Determination on Sell Orders (Location of Security Being Sold)
- Whether the order is Unsolicited
- Special Instruction (GTC, AON, Stop, Stop Limit)
- OATS Compliant Order Times (Order Received by Rep, Order Received by Trade Desk, Order Entered)

Any problems or unusual activity must be brought to the attention of the CCO for further review and logged into the supervision review log.

1. Option Supervision

The CCO will use the following exception reports to monitor the trading activity and type of option trades being conducted:

- (a) Daily Commission Reports
- (b) Missing Paperwork Options Report
- (c) Option Exercise Report
- (d) P/L Report (as needed based on reports above)

Trades will be reviewed for proper paperwork, improper trading (trading through pre-approved limits) and suitability. In addition, option positions will be reviewed to avoid violation of FINRA rule 2860 (3), excessive option positions. This review will be conducted by the CCO and all violations will be logged in the supervision review log and addressed immediately by memo and immediate report to FINRA, if applicable.

Suitability is very subjective and thus account approval will be done on a case-by-case basis. There are levels of approval that will be given for option accounts:

- Level One- covered call writing
- Level Two- buying stock options
- Level Three- spreads, interest rate and index options
- Level Four- short index and stock put options
- Level Five- short call options

The only restriction to clients on approval levels will be that clients with less than 1 year of option trading experience will only be given level one and two trading authority. The CCO may over ride any restriction or policy on a case by case basis.

The responsibility to supervise option trading will rest with the CCO. All option advertising will be reviewed and approved by the CCO. The option account approvals will be given by the CCO and all general option trading supervision, as well as reviewing individual rep option trading authority, will be the responsibility of the CCO. In order to supervise these activities the supervisor must successfully pass the FINRA Series 4 exam and have sufficient experience (to be determined by CEO) to perform the needed functions. The required logs and files relating to advertising will be kept by the CCO.

All branch offices with 4 or more Rep's, which transact options business, must have a registered options principal on site. Presently, IBSI's clearing firm (Penson) uses random assignments of clients' open positions.

2. Option Position Limits

The CCO and Trading Supervisor will review daily trades and option positions by using the daily commissions report to prevent any client, Rep or employee of IBSI from exceeding the limits put forth in Rule 2860.

IBSI will not exceed 13,500 on the same side of any put or call covering the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call or put options or; 22,500 of put or call options on the same side of the market covering the same underlying security, providing that these contracts shall only be available for option contracts on securities that underlie Nasdaq or exchange-traded options; 31,500 of put or call options on the same side of the market covering the same underlying security, providing that these contracts shall only be available for option contracts on securities that underlie Nasdaq or exchange-traded options; 60,000 of put or call options on the same side of the market covering the same underlying security, providing that these contracts shall only be available for option contracts on securities that underlie Nasdaq or exchange-traded options; 75,000 of put or call options on the same side of the market covering the

same underlying security, providing that these contracts shall only be available for option contracts on securities that underlie Nasdaq or exchange-traded options

3. Reporting Requirements for NASDAQ Index Options

The CCO will ensure that all transactions in NASDAQ index options are reported, by Penson Financial, to the Options Clearing Corporation pursuant to reporting procedures established by the corporation.

4. Option Client Complaints

A complaint is defined under FINRA Conduct Rules as "Any written statement alleging a grievance involving the activities of the securities broker or securities dealer, or any associated person of such securities broker or securities dealer with respect to any matter involving a client's account."

The CCO is responsible for ensuring that all written client complaints are reviewed and responded to promptly in writing. The CCO will be responsible for initialing the written complaint and signing the response as evidence of his review.

The CCO will maintain a central complaint file for client complaints and written responses for at least three years.

5. Corporate Debt Securities

i) Suitability

Trading in corporate debt securities comprises less than 2% of overall business for IBSI. These transactions will be supervised on a trade by trade basis and evidenced by the signature of the CCO on each trade ticket. The CCO will review each bond trade daily for the following:

1. Frequent purchases or sales of lower-rated issues
2. Frequent or excessive transactions
3. Transactions in the personal accounts of Representatives, associated persons, or related accounts
4. Short Sales
5. Suitability
6. Concentration of low-rated bonds
7. Excessively large positions
8. Substantial losses
9. Unusually large spreads
10. Free-riding by Representatives or associated persons

The same suitability requirements apply to bond trading as with all other types of trading. Additional supervision will focus on low rated bonds. All bond trades will be directed to IBSI for execution and any bond deemed to be junk or low rated will be reviewed for suitability. The CCO will review the account documents before the trade is executed. If it is not appropriate or in line with the clients risk and objectives the bond order will not be placed. No Rep will have access to any electronic bond trading system. All trades are called into the corporate office for execution.

ii) Mark Up/Down

Trade reviews will include higher scrutiny to spreads. No spread will be allowed to exceed 3%. Any trade exceeding the limit will be adjusted by the CCO before the trade is executed. However, there are situations that will affect the amount of mark up/down. These factors are liquidity of the issue, credit

rating of the issue and the ability to find the bond. All mark up/down will be based on prevailing market price. The prevailing market price will take into consideration interest rate changes, credit quality and news affecting the price of the issue. These will all be reviewed and evidenced by the CCO on the trade ticket.

iii) New Accounts

When a Representative opens an investment account, with the intention of investing in corporate debt securities, he must have a reasonable basis for believing at the time of the opening that the client is financially able to bear the risks of equity investments. All accounts being opened will be reviewed by the CCO and evidenced with a signature on the account paperwork. The client must have the knowledge and experience in financial matters sufficient to evaluate the risks of equity investments. Factors contributing to such a reasonable basis include, but are not limited to, the client's:

- a. Age
- b. Marital status and number of dependents
- c. Employment status
- d. Earned and unearned income
- e. Total and liquid net worth
- f. Investment experience and knowledge of particular markets
- g. Investment objectives and time horizon of investment
- h. Ability to undertake the potential financial risks of the transaction(s) involved
- i. Tax Status

Unauthorized transactions will be not be tolerated by IBSI. The client will direct all trades, with the assistance and advice of the Representative. Any Representative found to have traded without the consent and knowledge of the client will be reprimanded in writing. A second violation will result in immediate termination. These procedures will be carried out and noted in the supervision review log by the CCO, as well as offering the client the opportunity to reverse the trade.

iv) Trade Reporting

All trades are reported by Penson Financial Services on behalf IBSI to FINRA using the TRACE system. All corporate debt trades will be reviewed by the CCO at the end of the day to make sure the proper Trace reporting was done in a timely basis. If trade was not reported CCO will contact Penson Financial the same day to get the trade properly reported. Evidence of the TRACE review will be conducted by the CCO and evidenced by updating the Daily Report Review log for each reportable trade.

6. Option Advertising

The CCO, prior to use by the Representative, will approve each item of advertising and sales literature. Evidence of approval should include the name of the person preparing the ad, a principal's initials, and the date of the review written on a copy of the ad or its prototype. Advertisements should be reviewed for misleading or inaccurate statements.

Advertising would include, but not be limited to, "materials (other than listing of offerings) published or designed for use in the public media, or any promotional literature designed for dissemination to the public, including any notice, circular, report, marketing letter, form letter, or reprint or excerpt of the foregoing."

The CCO will maintain a centralized advertising file containing all advertisements.

Advertising pertaining to options, and other options-related communications to persons who have not received the appropriate current disclosure document(s), shall be submitted to the FINRA's Advertising Department for review at least ten days prior to its use, unless such advertisement or communication is submitted and approved by another regulatory body having substantially the same standards with respect to advertising.

7. Statement Review

The OSJ must review at least 25% of all customer statements under his/her supervision on a monthly basis. This review is designed to check for churning, excessive commissions, strange transactions and cash movements. A review is indicated by marking or initialing the statements reviewed. Any violations or problems found must be forwarded to the CCO for review and follow up. The CCO will notify the OSJ of any action taken.

8. Client Option Suitability

When a Representative recommends an option transaction to a client, he must have a reasonable basis for believing at the time the recommendation is made that the client is financially able to bear the risks of the transaction. The client must have the knowledge and experience in financial matters sufficient to evaluate the risks of the recommended transaction. Factors contributing to such a reasonable basis include, but are not limited to, the client's:

1. Age
2. Marital status and number of dependents
3. Employment status
4. Earned and unearned income
5. Total and liquid net worth
6. Investment experience and knowledge of particular markets
7. Investment objectives
8. Ability to undertake the potential financial risks of the transaction(s) involved

Unauthorized transactions will be not be tolerated by IBSI. The client will direct all trades, with the assistance and advice of the Registered Representative. Any Representative found to have traded without the consent and knowledge of the client will be reprimanded in writing. A second violation will result in immediate termination. These procedures will be carried out and noted in the supervision review log by the CCO, as well as offering the client the opportunity to reverse the trade.

9. General Suitability

When a Representative opens an investment account for a client he must have a reasonable basis for believing at the time of the opening that the client is financially able to bear the risks of equity investments. The client must have the knowledge and experience in financial matters sufficient to evaluate the risks of equity investments. Factors contributing to such a reasonable basis include, but are not limited to, the client's:

- a. Age
- b. Marital Status and Number of Dependents
- c. Employment status
- d. Earned and unearned income
- e. Total and liquid net worth
- f. Investment experience and knowledge of particular markets
- g. Investment objectives and time horizon of investment
- h. Ability to undertake the potential financial risks of the transaction(s) involved

Unauthorized transactions will be not be tolerated by IBSI. The client will direct all trades, with the assistance and advice of the Representative. Any Representative found to have traded without the consent and knowledge of the client will be reprimanded in writing. A second violation will result in immediate termination. These procedures will be carried out and noted in the supervision review log by the CCO, as well as offering the client the opportunity to reverse the trade.

10. Address Changes

Address changes to existing customer accounts must be submitted to the Operations Department via email or letter. Once an address change request is received, the Operations Department will submit the address change to the clearing firm (Penson Financial) through the Penson Connection Website or through email (addresschange@penson.com) for change of address on IRA accounts. Penson Financial generates a daily report of address changes for accounts (PFS137). This report contains copies of letters to clients addressed to the old and new mailing address for verification and is reviewed daily. This letter is sent out by Penson. Other changes include coding changes on mutual fund positions and changing coded instructions on an account. Special precautions may be taken if certain "Red Flags" are evident in changes to client mailing addresses such as multiple accounts updating mailing address or forwarding correspondence to a Post Office Box. The CCO is responsible for monitoring these procedures as they occur. At no time may a Registered Representative make address, coding or instruction changes on a client account.

11. Discretionary Accounts

Discretionary accounts of any type are not encouraged by IBSI. On a case by case basis, determined by the CEO, some Reps may be given permission to open discretionary accounts. In these cases the CCO will verify that all required client documents are on file and will supervise these transactions more closely. Because these accounts are more closely supervised, a spreadsheet which tracks the account values of these accounts is maintained. This tracks the month to month change in account values and better allows proper supervision of these accounts. This supervision applies to equity and option transactions/accounts.

12. Anti-Money Laundering

IBSI prohibits money laundering, placement of funds, conversion of funds or layering of funds from any entity or person connected with a wide variety of crimes, including but not limited to, drug trafficking, robbery, fraud, racketeering, and terrorism. The Anti-Money Laundering (AML) and Customer Identification Program (CIP) have been implemented to meet the requirements of the Treasury and SEC for a written program established by broker/dealers to verify the identity of each customer who opens an account. In order to accomplish these goals, IBSI has put together the following compliance program to detect, deter and prevent any such violations.

- i) Account Opening- The registered representative involved in establishing the account will be responsible for gathering the information required for the Client Account Form (CAF) and Customer Identification Program (CIP) from the client and/or potential client. The information required by the CAF and CIP for Anti-Money Laundering purposes includes but is not limited to the client's:
 - Name
 - Physical Address
 - Date of Birth
 - Description of Document Evidencing Nationality or Residence Bearing a Photograph or Similar Safeguard (a copy of the document is to be kept on file)
 - Number of the Document Evidenced

In addition to standard information, the CCO will verify the identity of the client by attaining written or verbal acknowledgement from the registered representative that the information provided by the client is accurate. This information will be provided by the registered representative at the time the account is opened or shortly thereafter. If the written verification by the Registered Representative is not evidenced by signature IBSI will require the actual identification document be submitted, i.e. a copy of the drivers license or passport. IBSI will not accept an account, unless the above verification is made and the customers name has been checked on the Treasury's Office of Foreign Assets Control (OFAC) Web Site <http://www.treas.gov/offices/enforcement/ofac/sdn/index.html> and http://apps.FINRA.com/Rules_&_Regulations/ofac under the Specially Designated Nationals and Blocked Persons (SDN List) by the CCO and then logged for record keeping purposes. Periodic FinCen requests made by the Treasury Department via email are compared against the client name and account database. Compliance of this procedure will be evidenced by the notation made in the AML Client Log by the CCO. Any positive confirmation of client name or identification number when comparing to the lists provided by the government will be brought to the attention of the registered representative and branch manager by the CCO to notify them that the account will not be opened. A list of all rejected accounts will be maintained with client information as follows; Name, Submitting Broker, Social Security Number Provided, and reason for rejection. All potential clients are notified that the firm will request identification verification via the Client Account Agreement. Confirmation of client's notification will be evidenced by their signature on the Client Account Agreement Form. If a new account is opened by an established client no ID documentation will be necessary.

No account will be opened or managed for an unregulated foreign shell bank. No account will be opened for a foreign bank or owner of a foreign bank. No account will be opened or maintained with a private bank or beneficial account holders of a private bank maintained or owned by a non-U.S. citizen. If the client refuses to comply with any requests for information, the firm will not accept the account and may report to FinCEN or OFAC if reasonable suspicion exists. A log will be maintained by the CCO for all accounts rejected, and will review each name with OFAC.

- ii) *Compliance Review*- The CCO will be notified by the Operations Dept to any abnormal net worth, income, source of income (employer). Any problems or concerns will be dealt with by the CCO and may result in closing of the account or placing the account on a "watch list" log maintained by the CCO.
- iii) *Supervision of Accounts*-Any trade or cash transaction involving funds or assets of \$5000.00 or more will be reviewed closely IF:
 - (a) Any known or suspected federal criminal violation involving IBSI has taken place or:
 - (b) IBSI knows, suspects, or has reason to suspect that the transaction involves funds related to illegal activity, is designed to evade SEC or FINRA regulations, or has no business or lawful purpose and no reasonable explanation is proved to IBSI.

The CCO will be responsible for, with assistance from the Trading Supervisor, to detect and follow up on all questionable transactions. If significant suspicion exists that a transaction may involve criminal, terrorist or corrupt activities then the CCO (or CEO may) will file a SAR (suspicious activity report) and in some circumstances notify law enforcement authorities. A log of all SAR filings or law enforcement notifications will be maintained by the CCO.

iv) Money Laundering Red Flags

The items below will be considered when suspicion exists of possible money laundering. These items are not suspicious in and of themselves, but will be used to review each unique situation;

- Unusual client concern regarding IBSI's compliance with government reporting requirements and firm policies with respect to client identity. Or any client who refuses to reveal any information concerning business activities or furnishes unusual identification.
- Client wishes to engage in transactions that lack business sense or are inconsistent with stated investment strategy.
- Information client provides proves to be false regarding source of funds.
- Upon request, client refuses to specify legitimate source of funds or assets.
- Client has questionable background or is subject of news indicating criminal activity.
- Client exhibits a lack of concern for risks, commissions or other costs.
- Client appears to be acting on someone else's behalf, but won't identify identity.
- Client has difficulty explaining nature of business or lacks general knowledge of his or her industry.
- Client attempts to make frequent or large deposits or asks for an exception to cash deposit policies.
- Client engages in cash transactions that appear to avoid the \$10,000 government reporting requirements. (IBSI does not accept cash, cashiers checks or cash equivalents)
- Client opens multiple accounts under a single or multiple names, with a large number of inter-account or third party transfers.
- Client is from a country identified as a non-cooperative country or territory by the Financial Action Task Force (FATF).
- Client has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity.
- Client shows numerous cash transactions with significant totals.
- Client has many wire transfers to unrelated third parties or to a FATF country.
- Client immediately withdraws recently wired funds from an account.
- Client immediately wires out deposited funds without apparent business purposes.
- Client request journals from various accounts without obvious business purposes.
- Client engages in transactions involving penny stocks, Reg S stocks, bearer bonds, in conjunction with other red flags, warrants further due diligence.
- Client account shows much activity with few securities transactions.
- Client has inflow of funds well beyond the known income sources.

v) Reporting Procedures

The CCO will identify any wire request that seem unusual or fall into any of the "red flags" listed above and follow up, which may include denying transaction, closing account, submitting a SAR to FinCENS (www.treas.gov/fincens), or contacting law enforcement authorities. All SAR's filed will be held very confidential (only the CCO or CEO will file) and separately maintained for 5 years. No SAR will be provided unless requested by a subpoena and the CEO will handle all such requests. IBSI will terminate any business relationship with a foreign bank within 10 days of receiving written notice from Treasury of the US Attorney General, however no such account would be opened. The following situations will also trigger notification of Federal Law Enforcement:

- If any client is listed on the OFAC list.
- If any client's legal or beneficial account owner is listed on the OFAC list.
- If any client attempts to bribe, coerce, influence or any other mean to induce IBSI to open an account or proceed with a suspicious or unlawful activity.

- Any situation that IBSI reasonably determines requires immediate law enforcement or government intervention.

These situations will be handled and documented by the CCO. Strict procedure will be employed both to ensure that only relevant information is shared and to protect the security and confidentiality of this information, including segregating it from the firm's other books and records.

vi) *Bank Secrecy Act (BSA) Procedures*

The CCO will be responsible for filing and maintaining the reports discussed below and all requests for information or notification to FinCEN patriot@fincen.treas.gov or Financial Institutions Hotline 866-556-3974.

- **Currency Transaction Report (CTR):** CCO will file CTRs with the Financial Crimes Enforcement Network (FinCEN), a bureau of Treasury, for transactions involving currency that exceed \$10,000. Multiple transactions are treated as a single transaction if they total more than \$10,000 during any one-business day.
- **Currency and Monetary Instrument Transportation Report (CMIR):** When IBSI receives or ships out currency or other monetary instruments into or out of the United States, in aggregated amounts exceeding \$10,000 at one time, CCO will report the event on a CMIR, the Commissioner of Customs.
- **Report of Foreign Bank and Financial Accounts (FBAR):** CCO will assure to file a FBAR, with FinCEN, on behalf of any person having a financial interest in, or signature or other authority over, financial accounts held with IBSI on behalf of a foreign country if the aggregate value of the accounts exceeds \$10,000.
- **Funds Transfers and Transmittals:** CCO will, for all wire fund transfers, of \$3,000 or more, collect, retain and record on the transmittal order the name and address of the transmitter and recipient, the amount of the transmittal order, the identity of the recipient's financial institution, and the account number of the recipient.

**IBSI does not accept cash deposits, cashiers checks or cash equivalents of any amount at any time.

vii) *Designations and Training*

CCO will act as the AML Compliance Officer and will assist in administering AML compliance program efforts. This will include the development of communication and training tools for IBSI employees. The CCO will ensure that all AML records are maintained properly and that SARs are filed as required pursuant to the firm's procedures. AML training will be incorporated in annual compliance meetings, periodic IBSI staff meetings, IBSI's continuing education, in-person lectures or any other appropriate training tool designed by the CCO. The general topics to be covered will include:

- How to identify "red flags" and possible signs of money laundering that could arise during the course of their duties;
- What to do once the risk is identified;
- What their roles are in the firm's compliance efforts;
- How to perform their roles;
- The firm's record retention policy; and
- Disciplinary consequences, including civil and criminal penalties for non-compliance with the Money Laundering Abatement Act.

viii) *Record Retention*

All records of identification information pertaining to AML and CIP will be maintained by the firm for a minimum of 5 years after the account has been closed and we will retain records made about verification of the customer's identity for five years after the record is made.

ix) FinCEN Requests Under PATRIOT Act Section 314

Under Treasury's final regulations (published in the Federal Register on September 26, 2002), we will respond to a Financial Crimes Enforcement Network (FinCEN) request about accounts or transactions by immediately searching our records, at our head office or at one of our branches operating in the United States, to determine whether we maintain or have maintained any account for, or have engaged in any transaction with, each individual, entity, or organization named in FinCEN's request. Unless otherwise stated in FinCEN's request, we are required to search current accounts, accounts maintained by a named suspect during the preceding 12 months, and transactions conducted by or on behalf of or with a named subject during the preceding six months. If we find a match, we will report it to FinCEN by completing FinCEN's subject information form. This form can be sent to FinCEN by electronic mail at sys314a@fincen.treas.gov. If the search parameters differ from those mentioned above (for example, if FinCEN requests longer periods of time or limits the search to a geographic location), we will limit our search accordingly. It is the ongoing duty of the firm's CCO to receive, research and respond to these requests as necessary.

If we search our records and do not uncover a matching account or transaction, then we will not reply to a 314(a) request.

We will not disclose the fact that FinCEN has requested or obtained information from us, except to the extent necessary to comply with the information request. We will maintain procedures to protect the security and confidentiality of requests from FinCEN, such as those established to satisfy the requirements of Section 501 of the Gramm-Leach-Bliley Act.

We will direct any questions we have about the request to the requesting Federal law enforcement agency as designated in the 314(a) request.

Unless otherwise stated in the information request, we will not be required to treat the information request as continuing in nature, and we will not be required to treat the request as a list for purposes of the customer identification and verification requirements. We will not use information provided to FinCEN for any purpose other than (1) to report to FinCEN as required under Section 314 of the PATRIOT Act; (2) to determine whether to establish or maintain an account, or to engage in a transaction; or (3) to assist the firm in complying with any requirement of Section 314 of the PATRIOT Act.

We will share information about those suspected of terrorist financing and money laundering with other financial institutions for the purposes of identifying and reporting activities that may involve terrorist acts or money laundering activities and to determine whether to establish or maintain an account or engage in a transaction. We will file with FinCEN an initial notice before any sharing occurs and annual notices afterwards. We will use the notice form found at www.fincen.gov before we share information with another financial institution, we will take reasonable steps to verify that the other financial institution has submitted the requisite notice to FinCEN, either by obtaining confirmation from the financial institution or by consulting a list of such financial institutions that FinCEN will make available. We understand that this requirement applies even with respect to financial institutions *with whom we are affiliated*, and so we will obtain the requisite notices from affiliates and follow all required procedures.

We will employ strict procedures both to ensure that only relevant information is shared and to protect the security and confidentiality of this information, including segregating it from the firm's other books and records. In addition to sharing information with other financial institutions about possible terrorist financing and money laundering, we will also share information about particular suspicious transactions with our clearing broker for purposes of determining whether one of us will file a SAR-SF. In cases in which we file a SAR-SF for a transaction that has been handled both by us and by the clearing broker, we may share with the clearing broker a copy of the filed SAR-SF, unless it would be inappropriate to do so under the circumstances, such as where we filed a SAR-SF concerning the clearing broker or one of its employees.

To assure proper compliance and supervision of Money Laundering procedures the CCO will review all monetary transactions on a daily basis.

13. Heightened Supervision

Brokers who conduct more than 20% of the firm's gross revenue will be subject to higher supervision standards. For brokers falling into this category the CCO will review every client statement for the brokers' clients, as opposed to the 25% per month policy. The CCO will also review each trade conducted by the broker each day. This review will be conducted via the daily blotter report and the daily confirmation reports. The CCO will also log any questionable trades or accounts that become targeted for increased scrutiny. This log will be maintained daily to supervise trading, address changes and any other suspicious activity or transaction.

14. Supervision for Producing Managers

In the IBSI structure only Joshua Helmle falls under the "producing manager" designation, however, to the extent that any Rep falls under the definition of a manager with his own production, he will also be supervised by another qualified supervisor. Therefore, as deemed by FINRA, an experienced Series 24 Registered Principal will monitor and supervise the trading activity and client correspondence for any Rep who supervises other Reps and has personal production. This will be accomplished by providing quarterly reports via email of all trade activity and emails executed/sent by "producing manager" for review. Evidence of this review will be made by submitting an email within 10 business days following the end of the quarter to the CCO and if review results in any concerns these will be brought to the attention of the CCO and discussed. A written acceptance of the steps taken to correct any problems will be acknowledged in email by supervisor. The trade blotters will be provided each quarter to the supervisor of a producing manager for review and any comments or problems will be addressed to CCO with acknowledgement of this meeting made via email by supervisor. The trade information and emails sent/received will be given to supervisor by granting access with passwords to online information and LiveOffice email archive. This will prevent any information from being hidden from supervisor of the producing manager.

G. TRANSACTIONS BY OR FOR ASSOCIATED PERSONS

To determine that a transaction will not adversely affect the interests of a broker/dealer operation, the CCO will take the following steps when an associated person of another broker/dealer applies for a new account.

- Notify the associated person's employing broker/dealers prior to execution of the transaction.
- Transmit duplicate confirmations, statements, and/or other information in accordance with the other broker/dealer's request.

H. TRANSACTIONS FOR REPRESENTATIVE'S RELATED ACCOUNTS

All such accounts will be separately logged to distinguish them from regular client accounts with IBSI. Any accounts maintained outside of IBSI must be pre-approved and duplicate statements and confirmations must be reviewed the CCO and evidence by initialing the statement. The CCO will review and maintain these accounts. Representative and related accounts are defined as;

- Accounts owned by the Representative, Spouse or Immediate Family Member
- Accounts owned by an Individual living within the Representative's Household
- Accounts owned by and Individual in which a Control Relationship Exists

I. TRADING DEPARTMENT COMPLIANCE FUNCTIONS

The CCO will be responsible for verifying that trade reporting is done properly, order tickets are completed, short sale rules are being followed, affirmative determination is noted, trades are reviewed with respect to firm mark-up/mark-down policy and that trades are reviewed to assure compliance with

best execution. ALL TRADE TELEPHONE LINES ARE RECORDED FOR ACCURACY OF ORDERS.

1. Trade Reporting

IBSI is not required to report any trades executed through Penson Financial due to the fact that Penson Financial Services (our clearing firm) and IBSI have a pre-determined give up arrangement allowing Penson to report on our behalf. In those instances where IBSI is required to report a trade, such as an agency cross or any trade executed directly with a market maker the trading supervisor will report those trades on a timely basis according to regulatory rules and regulations. In order to verify trade reporting is being done properly the trading supervisor will review the next day's OATS reports to assure prospering reporting has taken place. Any problems found during these reviews will be logged and maintained in the daily report review spreadsheet.

2. Order Tickets

All order tickets will be reviewed by the CCO or OSJ to assure all required information is noted. Any tickets not reflecting the proper information will be forwarded to the CCO for follow up. The Branch Manager, evidenced by initials, will conduct reviews daily. During the internal audit the tickets will be reviewed for completeness. Violations resulting from the audit will be brought to the attention of the CCO for discipline.

3. Short Sale Rule

The CCO will be responsible for adherence with FINRA short sale rules by reviewing all tickets to assure the following:

- i) No short sales in a Nasdaq security will be done at or below the current best (inside) bid when the current best (inside) bid, as displayed by the Nasdaq, is below the preceding best (inside) bid in the security.
- ii) All quotes prior to the "ex" date will be reduced by the value of such distribution prior to the short.
- iii) Branch Manager will assure that affirmative determination is made on all short sale orders, such that stocks sold short could be delivered or borrowed.
- iv) All order tickets will be marked as a short sale.

Any violation of these points will be brought to the attention of the CCO for follow up.

4. Markup/Markdowns

The CCO and Branch Manager will review all trades daily to assure that no transaction has a total markup higher than 5%. Any trades exceeding this limit will be brought to the attention of the CCO for resolution. In addition, the CCO will also review these trades for any such violation. The 5% mark up is the maximum, but not the guideline. The IBSI guideline is 3% on each side of a trade and 5% roundtrip on a day trade. Most trades should fall within our guideline, but in no case can exceed the maximum allowed. In any case the principal commissions must be fair and reasonable. The 5% maximum is acceptable under certain circumstances involving limited liquidity, unique research required for due diligence and other unique circumstances.

5. Synchronized Time Clock

The CCO will be responsible to maintain the synchronization log on a daily basis for all time clocks not automatically synchronized to the NIST atomic clock. This log must be maintained and updated at the open and close of each business day to assure the IBSI time clocks are properly synchronized with the NIST atomic clock. The clock used by IBSI automatically synchronizes to the NIST atomic clock 6 times daily by using the internal radio frequency and therefore no log is maintained. The SkyScan Atomic Clock is used. Per previous FINRA audits use of synchronization log is not necessary.

6. Best Execution

Five trade tickets per quarter will be chosen at random along with the corresponding time/sales reports to review for best execution. Time of input, time of execution and price received will be compared to the time/sales report for price and timeliness. This review will be documented in the form of a log and signed off by the CCO and reviewed quarterly by the CEO.

7. Series 53 and Series 55 Requirement

All equity traders, executing trades away from the desk, must comply with FINRA By-Laws requirements by successfully completing the Series 7. The trading supervisor at IBSI must have a series 53 (for all principal municipal bond transactions) and a series 55 (if equity orders are being directed) to direct trades and supervise those that act in that capacity.

Registered Representatives and OSJ's are not authorized to negotiate or execute trades away from the trading desk without prior written approval from the trading supervisor. Only authorized traders may execute trades on the Firm's behalf. It is the ultimate responsibility of the trading desk to determine the contra dealer to a trade and maintain regulatory compliance and best execution responsibility.

8. Trading Halts

During market-wide trading halts resulting from the triggering of circuit breakers, customer orders should be handled in the same manner as they would have been handled during other regulatory trading halts concerning only individual stocks.

During market-wide trading halts of durations that will allow trading to resume on that same trading day, pending and new customer orders should be forwarded to the appropriate market for execution upon the resumption of trading. This should be done unless the member receives contrary instructions from the customer during the halt. During market-wide trading halts with durations that will close the market for the remainder of the trading day, pending and new customer orders should be treated as follows:

- Absent customer instructions to the contrary, orders that are pending at the time of the halt, and new orders received after the halt has commenced, should be treated as "*Good Til Cancelled*" orders and be held by the member for execution at the reopening of the next trading session.
- "At-the-Close" orders (including "Market-at-Close" orders) pending at the time trading is halted should be treated as cancelled orders. Members should not accept, or forward to a market, any new orders related to closing prices received during a trading halt.

All trade halt requirements will be monitored and carried out by the trading supervisor.

9. OATS Reporting Procedures

IBSI, as an introducing firm will have our reporting agent, Penson Financial Services, Inc. submit the majority of our OATS reporting on behalf of IBSI. The CCO, will however, submit the proper OATS reports daily based on trading activity done using the Go Trader system (also known as I Trade). These reports will be received via email from I Trade and will then be forwarded each day to oatsfiles@FINRA.com. The receipt and confirmation email from the FINRA that is sent back to IBSI must then be saved in the OATS folder.

In order to verify that the proper reports have been submitted by our reporting agent or IBSI, the following reviews and verifications will be performed on a daily basis by the CCO.

1. The daily FORE files will be verified to assure OATS acceptance on a weekly basis.
2. The ROE's will be reviewed and identified. If any repairs are required, the CCO will make the necessary adjustments and determine if the reporting agent was responsible for the errors in the report. The CCO will then follow up with the reporting agent or IBSI to resolve future issues.
3. All ACT matching deficiencies will be identified and adjusted accordingly. The CCO will make the necessary changes and alert the reporting agent if applicable.
4. All OATS reports will be reviewed to assure they were submitted on time and were accepted by the OATS system. In any case where the report is classified as late by OATS the CCO will log

the report on a spreadsheet, list the reason for the lateness and take any steps required to correct the problem. Any such late reports will be forwarded to the CEO.

The CCO will perform the following OATS reviews and verifications on a quarterly basis.

- The firm contact information on the OATS system will be reviewed and updated as needed.
- The CCO will review 5 reportable trades by matching corresponding trade tickets to electronic reports found on the OATS website to verify:
 - a. that they were submitted to OATS
 - b. that all data fields on report are accurate
 - c. that the ROE's submitted are in the correct time sequence
 - d. that all special handling codes were submitted correctly
 - e. that the account type codes were submitted correctly
 - f. that the received method codes were submitted correctly
 - g. that routed order ID's were passed correctly from Route to Receive firm
 - h. that all data was corrected submitted under the proper MPID (IBSI)

If there is any inaccurate information in procedures above the CCO will correct and alert the CEO to correct the problem from happening in the future.

- The CCO will review the OATS site, FINRA Executive emails and any other appropriate sources to get OATS rules updates and any other information applicable to this policies and procedures manual.

All errors or problems found during these daily and/or quarterly reviews will be discussed with the CEO to determine if changes in the IBSI policies and procedures need to be made or if the reporting agent must fix some issues causing either incorrect or late trades.

10. Commissions

The CCO, on a daily basis, reviews all IBSI trades. These trades are reviewed for commissions charged to assure that round trip limits are not exceeded and that firm agency guidelines are followed at a minimum, but that 5% maximum allowed by rule is not exceeded in any case. Commissions are reviewed to assure they are fair and reasonable for the type of transaction taking place.

J. TRADE ERROR AND CORRECTION REVIEW

The CCO tracks and reviews all trade error/correction forms. These result from Representative, client and firm errors or corrections and are processed and reviewed daily. This review per Rule 3110 J will be done by the CCO and a copy of each cancel correction will be maintained in the cancel correct file held in electronic format. All cancel correct forms are maintained and submitted in electronic format in excel. These corrections are only done by the CCO so creation and approval are simultaneous. On a quarterly basis the CCO will review the frequency and type of errors or corrections being made and which Representatives or branches are committing the errors. A letter of caution and/or fine may be imposed by IBSI for those Representatives creating an undue amount of errors. The CCO will also review trading activity for Representatives who have a high amount of error or correction submissions. The resulting review may lead to a letter of caution and/or fine and termination. With regard to Pension, when the error is made by IBSI or the Representative and requires some type of market action, the initial trade is moved to the error account for correction. When the client or Representative makes the error, the trade is corrected and the client or Representative is responsible for any loss, depending on who made the error. If the trade results in a profit, the firm will retain the credit, due to the fact that neither the client nor broker may benefit from trade errors. The account is then placed on a ninety-day restriction if the trade resulted in a free ride, with either cash or securities required to be long in the account prior to any trading.

K. LOW PRICED SECURITIES

Unsolicited Trading; Trading and solicitation of Low Priced Securities (securities trading under \$2.00) is not promoted by IBSI. Clients wishing to invest in Low Priced Securities or Designated Securities (defined as a non-FINRAAQ OTC equity security issued by a company with less than \$2 million in net tangible assets [ref. SEC Rule 15c2-6]) on an unsolicited capacity must complete and submit to the CCO the Unsolicited Low Priced Securities Letter. This disclosure and client acknowledgement must be signed and returned prior to settlement. This procedure must be followed for the first 3 trades done in a Low Priced or Designated Security per account. After the third instance, the client will be considered an established Low Priced/Designated Securities investor.

Solicited Trading; Clients wishing to invest in Low Priced Securities (securities trading under \$2.00) on a solicited capacity must complete and submit to the CCO the Solicited Low Priced Securities Letter. This disclosure and client acknowledgement must be signed and returned prior to settlement. This procedure must be followed for the first 3 trades done in a Low Priced Security per account. After the third instance, the client will be considered an established Low Priced Securities investor. Solicitations of Designated Securities are not allowed by IBSI.

Discretionary Trading; Accounts in which Discretionary Trading Authority has been granted by the client must have on file written notification and acceptance by the client that Low Priced Securities may be traded in their account. Trading of Designated Securities in a Discretionary capacity will not be allowed. In order to verify the proper documentation has been received for all low priced transactions the CCO will review all trades each day that qualify as low priced and if documentation does not exist the broker will be contacted immediately to attain proper documentation. If documentation does not exist the broker will be warned for first infraction and the trade will be busted on subsequent violations.

L. MUTUAL FUNDS

The following practices may constitute unfair dealing with customers in violation of the FINRA Conduct Rules:

1. Switching

Switching is moving a customer from one fund to another, or selling a customer out of a fund known to have been purchased in the recent past. This practice raises questions of suitability, unfavorable tax consequences and unfair additional sales charge. However, such practice may be advisable under certain circumstances. Representatives must discuss all of these matters in detail with the customer and assure that the switch is in the clients' best interest.

All switches must be documented by using the IBSI Switch Letter. This form must be placed in the investor file and a copy must be forwarded to the CCO. All mutual fund switches will be reviewed by the CCO and representatives may be requested to provide additional information. If the form is not completed, the trade may be canceled and corrective action taken. The representative will be responsible for any costs incurred in reinstatement or cancellation of the mutual fund transactions including, unrealized losses to the customer.

Certainly, there may be times when a switch between commission investments would be advantageous to the customer. An alternative may be an exchange between individual funds within a group or family of funds. In those cases, there may be no additional charges for the customer to exchange to another fund that meets his new objectives or intentions. Switches must always be in the best interest of and acknowledged in writing by the client.

If recommendations to fund investors to engage in market timing transactions should be made, for transactions in a single family of funds or where there are virtually no transaction costs associated with the trade, the representative must still review the transaction for suitability. Market-timing transactions may not be considered a switch by the FINRA. However, there may be a presumption of some rule

violation by the FINRA in the absence of documentary evidence noting the reasoning behind the market timing movements.

2. Frequent Trading of Mutual Funds

Caution should be used when trading in mutual fund shares, particularly on a short-term basis. It is clear that, normally, these securities are not proper trading vehicles and such activity on the surface may raise the questions of rule violation. Rule 2310-2(3) of the FINRA Conduct Rules contains a section entitled "Trading in Mutual Fund Shares" which reads as follows:

"Trading in mutual fund shares, particularly on a short-term basis, is not acceptable. It is clear that normally these securities are not proper trading vehicles and such activity on its face may raise the question of rule violation."

While there is no question that mutual funds are intended to be long-term investments, there may be circumstances when investors perceive it to be in their best interests to liquidate shares in one family of funds to purchase shares in another family of funds. A determination as to whether there may be a rule violation can only be made on a case-by-case basis depending upon the client's intentions and circumstances. Even then, such intentions should be reviewed carefully, and liquidations should be discouraged unless there appears to be good reason on the part of the investors.

3. Breakpoints

Failure, by the Representative, to explain to customers the "breakpoint" for quantity purchases to customers is considered a violation of the just and equitable principles of trade. A failure to explain such breakpoints generally violates the FINRA Conduct Rules (IM-2830-1). In addition, such breakpoints may have a substantial positive impact on investment results. All mutual fund trades will be reviewed daily by the CCO to uncover possible breakpoint violations.

4. Other Considerations

Representative and OSJ'S must use care to explain to customers the use of Letters of Intent or Rights of Accumulation and the benefits of both. Not giving clients the opportunity to use these beneficial tools is a violation of IBSI policy. It is a violation of IBSI policy to solicit mutual fund sales by promoting the fact that by purchasing shares of the fund one will receive dividends. "Selling dividends" cannot be used to solicit business. All mutual fund trades will be reviewed daily by the CCO to uncover possible violations.

5. Prospectus Delivery

Solicitation MUST be made only with the delivery of a current prospectus. No prospectus may be older than 9 months and will be verified during branch office audits. Any Registered person found to solicit Investment Company shares without delivering a prospectus will be disciplined by the CCO, to be determined by CCO.

6. CDSC Sales (Contingent Deferred Sales Charge)

With the understanding that investment company shares will be sold to clients the following guidelines must be adhered to:

- i) Deferred sales charges described in a prospectus, which may be imposed by an investment company, shall not exceed 8.5% of the offering price.
- ii) Rights of accumulation (cumulative quantity discounts) must be made available to every client per the prospectus. If rights of accumulation are not made available, on terms at least as favorable as those specified below, the maximum aggregate sales charge shall not exceed 8.0% of offering price. Quantity discounts, if offered, shall be made available on single purchases by any person

IBSI's Operations and Trading Departments are responsible for processing trades. The three areas of the Operations Department, and the business they handle, are as follows.

IBSI-Cleared Business handles:

- i) Direct (Application-way) orders (mutual funds)
- ii) Wire orders (via Trading Department), both placement and settlement (mutual funds and unit investment trusts, included)
- iii) Mutual fund block transfers
- iv) Correction/changes of branch office address on file with product sponsor
- v) Representative changes on mutual fund accounts

The Operations Department will process all application way business, once the new accounts department has processed it. Upon completing a review the CCO will initial the appropriate form. Furthermore, transactions are also reviewed by the CCO to ensure that:

- i) Forms are completed properly
- ii) Checks are made payable to fund or program
- iii) A completed copy of the Client Agreement is on file

Transactions in limited partnerships are not allowed by IBSI.

Correspondent Business is that which is processed through Penson or any other clearing firm used by IBSI. The three different departments in this area, along with their responsibilities and supervisory procedures, are as follows:

1. Trading Department
 - i) Handling stock, option, and Penson mutual fund trades
 - ii) Providing quotes (limited basis, per broker need)
 - iii) Matched trades/Cross sales
 - iv) Low-priced stock trades (Refer to Low Priced Securities Section of Supervision Chapter)
 - v) Insider trading; by checking for significant movement in a particular security or large concentration of shares or options.
 - vi) Discretionary activity in Representative's favor (Prohibited by IBSI policy)
*(See Discretionary Account rules of this Section)
 - vii) Open orders - A separate file is maintained in the Order Room for open orders. IBSI sends the Representative a recap of open-orders at least twice a year.
 - viii) Short sales.
 - ix) Rule 144 sales (Will be monitored to ensure that they are processed in a timely manner. 144 trade requests will be forwarded to the Operations Department for processing and accuracy prior to submission to the clearing firm. All paperwork must be submitted prior to trade.)
 - x) Block trades. (Subject to block trading rules, see block trading rules)
2. Operations
 - i) Opening new accounts
 - ii) Transferring clients' brokerage accounts
 - iii) Cashiering (payouts, transfer & ship, dividend claims, settlements, re-registration of securities, Regulation T notices and charges)

3. Trading Department
 - i) All types of bond and equity transactions
 - ii) Option transactions
 - iii) Quotes on Equity & Fixed income products

The CCO and Branch Manager will review other trades for the following:

- i) Executions are reviewed for timeliness and best execution
- ii) Tickets are properly time stamped with the 3 required times
- iii) Mark-ups and mark-downs are within FINRA guidelines
- iv) Securities are not "parked" in client accounts

That order tickets contain:

- (a) Name or symbol of security and quantity
- (b) Whether a buy or sell (if sell, whether long or short; if long, location of security being sold)
- (c) Account name or number
- (d) Price or pricing instructions
- (e) Whether unsolicited (if not marked it is considered solicited)
- (f) Representative's name or number and who entered the order

In addition to the above-listed, the CCO and Branch Manager will promptly supervise securities transactions, either by reviewing all order tickets or the P&S blotter with commission (mark-ups) noted. This will ensure that IBSI's commission guidelines are utilized, but that the maximum 5% on each side of a transaction are not exceeded.

N. DISCRETIONARY ACCOUNTS

A Registered Representative may accept another party's discretion over an account only if the following has occurred.

- The Registered Representative obtains a completed Limited Trading Authorization (LTA) from the client and this form is presented to the OSJ for approval.
- The branch approved LTA is then forwarded to the CCO for acceptance by the firm. The CCO, if the discretionary authority is approved, will file the LTA in the client's account documents.

Please note that discretionary accounts are not permitted with the power being given to the Representative, unless an exception is granted by the CCO.

O. BLOCK TRADES

Block Trades are defined as single orders for multiple accounts, which are allocated later in the day. For the purpose of OATS and FINRA regulations, block orders can only be entered by a money manager or by a Registered Representative who has discretion over the accounts that comprise the block

Time and Price discretion does not meet the definition of discretion for block trading.

The only allowable instance for entering a trade as a block would be if the purchase or sale were to be allocated among several discretionary accounts. To receive the proper allocation of accounts, the information must be delivered to trading before or immediately after the order is entered (no more than 20 minutes). The trade breakdown may be finalized with trading once the number of shares actually traded is determined. If a Registered Representative wishes to buy or sell a single security for multiple accounts that are not discretionary, he/she will have to place the orders as "bunched". This allows a Representative to submit many round lot orders for execution at the same time, as long as the Representative has discussed and received prior approval for the orders from the clients. It is the

Trading Supervisors responsibility to assure the account information is received in a timely basis. If a Representative is abusing the system, the CCO must be contacted for further follow up. IBSI will still allow orders entered as a "block" for an account that will likely trade additional shares of the same security later in the day, and a single average price confirm is requested. These orders must be entered with the account number specified at the time of entry.

The following specific procedures must be followed when placing block trades:

- i) Block orders must include client order tickets or sheet at or very shortly after the time the trades are placed (no later than 20 minutes). The only exception to this rule will be for institutional DVP accounts and discretionary accounts managed by an RIA/AA.
- ii) If the Trading Desk does not receive client order tickets or sheet, at/or very shortly after the block trade is entered, the CCO will be notified and further block trading ability may be suspended.
- iii) Representatives with discretionary authority may use a block trading form or fax a letter with the account numbers and share amounts.

P. BUNCHED ORDERS

Under the amendments, which are effective immediately, orders of less than 10,000 shares which are either received or initiated by the trading departments of member firms and executed at the same price may be bunched into a single transaction report. The amendments therefore extend bunching to principal trades by members and increase the size of individual orders, which may be bunched in a single transaction report from 5,000 to less than 10,000 shares. This allows a Representative to submit many round lot orders for execution at the same time, as long as the Representative has discussed and received prior approval for the orders from the clients.

As a reminder to members in this regard, the rule states that:

- It is not permissible for a member to withhold reporting a trade in anticipation of bunching the transaction with other transactions;
- Bunching can only occur if all bunched transactions are executed within 60 seconds of the first trade bunched;
- Each bunched trade report must be made within 90 seconds of the first trade executed;
- All order tickets of bunched trades must be identifiable by the member.

The CCO is responsible for assuring proper reporting of all bunched orders by reviewing the trade tickets on a daily basis. All bunched orders must be brought to the attention of the CCO the same day. Any violations or improper bunched orders may be sent to the CCO for follow up. (At the discretion of the Trading Supervisor)

Q. RULE 144

1. Control Stock

Restriction may also be applied to "control stock" (those securities held by a person or group that are deemed to be affiliates of the issuer). Usually, "control stock" does not contain a restrictive legend on the certificates, whereas "restricted stock" should, although not necessarily, have a legend on the certificate.

The following persons may be deemed to be control persons or affiliates of the issuer:

- i) Any senior officer (i.e., CEO, Executive, Vice CEO, Secretary, Treasurer)
- ii) Any Director
- iii) Any holder of 10% or more of any equity securities
- iv) Any relative or spouse of the aforementioned whose actions may be directed or controlled by the control person or affiliate

- v) Any person capable of influencing the course of management or who is privy to nonpublic information
- vi) Any group of persons who, through verbal or written agreement, have committed themselves to act in concert, provided their joint actions can affect company affairs
- vii) Corporations other than the issuer, estates, trust, custodianships and foundations, whose executor, trustee, etc., fall within the aforementioned categories, or any of the aforementioned categories which collectively own 10% or more of the beneficial interest of the securities of the issuer

Any person who falls into any of the above categories, but believes himself not to be a "control person" or "affiliate," may be requested to furnish an opinion of counsel to that effect. Rule 144 under the Securities Act of 1933 sets specific guidelines under which holders of restricted stock or control persons may sell shares.

This rule applies to purchases of its own securities by:

- i) The company or its subsidiaries
- ii) Affiliates of the company
- iii) Company pension, profit sharing, stock purchase plans, etc., unless the agent entering the order is neither connected with nor influenced by the company

The following restrictions apply to transactions pursuant to Rule 10(b) 18:

- i) Only one broker or dealer may be used on any given day.
- ii) No order may be entered until after the stock has opened, if listed, or an independent bid is reflected
- iii) No order may be entered within one-half hour of the close.
- iv) Certain price restrictions also apply to Rule 10(b) 18 securities purchases. Volume limitation guidelines on Rule 144 trades are as follows:
 - i) With respect to a reported security, the average daily trading volume for the security reported in the consolidated system in the four calendar weeks preceding the week in which the Rule 10b-18 purchase is to be effected or the Rule 10b-18 bid is to be made;
 - ii) With respect to an exchange traded security, the average of the aggregate daily trading volume, including the daily trading volume reported on all exchanges on which the security is traded and, if such security is also a Nasdaq security, the daily trading volume for such security made available by the FINRA, for the four calendar weeks preceding the week in which the Rule 10b-18 purchase is to be effected or the Rule 10b-18 bid is to be made;
 - iii) With respect to a Nasdaq security that is not an exchange traded security, the average daily trading volume for such security made available by the FINRA for the four calendar weeks preceding the week in which the Rule 10b-18 purchase is to be effected or the Rule 10b-18 bid is to be made; Provided, however, That such trading volume under paragraphs (a)(11) (i), (ii) and (iii) of this section shall not include any Rule 10b-18 purchase of a block by or for the issuer or any affiliated purchaser of the issuer;

The facts surrounding the sale and/or clearance of 144 or otherwise restricted non-Nasdaq securities often give rise to increased exposure to securities law violations or financial liability. Therefore, requests to clear non- Nasdaq 144 sale and otherwise restricted securities are subject to the review and acceptance of the sale prior to processing by the Operations Department by reviewing:

- i. The nature of the acquisition of the securities by the owner:
- ii. The relationship, current or historical, of the owner to the company.

- iii. The financial condition of the issuer.
- iv. The trading volume and market makers in the security.
- v. The size of the proposed sale.
- vi. The presence of an existing relationship between the broker and the client. (In general, a pre-existing relationship must exist between the broker and client as evidenced by an established brokerage account.)
- vii. The significance of the relationship.
- viii. Other facts and factors relevant to the proposed transaction.

Conditions for trading Rule 144 stock, such as, private placement, unregistered, restricted, lettered or legend stock may be resold in a public transaction only if, among other things the following conditions are met:

- i) Stock must be fully paid for and held at least one year by the seller;
- ii) Form 144 must be filed with the SEC prior to the sale, which is valid for 90 days;
- iii) The B/D may not publicly solicit the buyer;
- iv) The issuer must be current with its SEC filings; and
- v) The amount sold cannot exceed percentage limitations outlined in the Rule.

Prior to any trades being transacted for a broker, these policies must be understood and carried out by the Operations Department. Securities can only be sold in “brokers transactions” within the meaning of section 4(4) of the Securities Act and the selling broker does no more than execute the order or orders to sell the securities as agent for the person for whose account the securities are sold; and receives no more than the usual and customary commission. Since the implication has always been that the broker is acting as agent for the seller, he cannot act in a similar capacity for the buyer without the appearance of a solicitation. Further, receiving a commission for the sell as well as the buy could represent more than a normal commission. Acting as both agent for the buyer and seller (in an agency cross) would have the appearance of a solicitation (on one side or the other) and would accordingly be prohibited. The purpose of sales pursuant to Rule 144 is to make a sale in the open market. Crossing orders appears to contradict the Rules intent. Thus, agency crosses are prohibited.

R. SALES PRACTICES REVIEW

1. Branch Office Audits

A Compliance Examiner conducts branch office inspections on a periodic basis. OSJ offices will be inspected no less than annually. Non-OSJ branches will be inspected no less than once every three years. Each principal, branch manager, must examine all non-branch offices under his or her jurisdiction annually. The non-OSJ audit package will be used to complete these audits and then forwarded to the CCO for review.

The frequency of inspection required for a given branch location will be designated by the CCO. Criteria include: OSJ status; nature and volume of business processed; number of representatives in location; types of securities business; advertisement and sales literature request history; history of complaints or compliance concerns; and proximity to other offices. A list of inspection cycles will be held by the CCO.

The review of branch office activities will include, but not be limited to: client files; branch office centralized files and logs; office sales and operational practices; and specific regulations and important issues (such as selling away, insider trading policies, outside business activities, branch personnel, registration and licensing concern, advisory registration status, etc.). Records of each inspection will be maintained, including notation of deficiencies, examiner's name, and the branch's response to those deficiencies.

2. Prohibited Transactions

Consistent with the FINRA Conduct Rules, and certain federal and state securities laws, Representatives are prohibited from engaging in the following:

- i) *Acceptance of cash or negotiable investments.* Representatives are prohibited from accepting cash, cashiers checks or accepting a negotiable instrument or security from a client made payable to the Representative or an entity in which the Representative has any interest or control. A Representative may accept no gifts or gratuities in excess of \$100. A log will be maintained for all gifts given and received. CCO will maintain the log.
- ii) *Agent or purchaser representative.* Representatives are prohibited from acting as an agent or purchaser representative on behalf of a client, unless a written exception arrangement is pre-approved by the CCO.
- iii) *Avoidance of client losses.* Representatives are prohibited from agreeing to repurchase, presently or at some future time, a security from a client or to guarantee or in any way represent that he or IBSI will protect any client against loss in any account or on any transaction. IBSI may repurchase a client's securities to correct an error or settle a complaint, but an individual representative may not do so or represent that IBSI might do so. Representatives are prohibited from settling errors or disputes directly with a client.
- iv) *Solicitation.* Representatives are prohibited from soliciting or selling of any security in a state for which the Representative is not properly licensed or soliciting or selling any security type for which the representative is not properly licensed.
- v) *Client loans.* Representatives are prohibited from borrowing or lending money or securities from or to a client.
- vi) *Commingling.* Representatives are prohibited from commingling of funds or securities with clients.
- vii) *Commission assignments/contributions.* Representatives are prohibited from advancing or assigning compensation received from IBSI to any person or entity.
- ix) *Confirmations.* Representatives are prohibited from forwarding confirmations or statements of accounts to any other person, entity or official post office address of a client, unless an authorization signed by the client is on file in the client record retention area.
- x) *Credit.* Representatives are prohibited from arranging for the extension or maintenance of credit for any clients, other than a margin account.
- xi) *Custodian.* Representatives are prohibited from acting as a personal custodian of a security, stock power, money, or other property belonging to a client, without the written consent from the CCO.
- xii) *Directorship.* Representatives are prohibited from accepting a membership on a board of directors or associating oneself officially or unofficially with any other business without the prior written approval from the CCO.
- xiii) *Discretionary authority.* Representatives are prohibited from holding discretionary authority, power of attorney, or acting as a trustee, personal representative, executor, custodian, guardian, or otherwise possessing the power to direct trades or exercise control over assets in a client account, unless approved in advance in writing by the CCO.

- xiv) *Distribution of internal materials.* Representatives are prohibited from allowing a client to have access to internal material, including material marked "for internal use only," "for broker/dealer use only," "for representative use only," or similar terms. If this type of material is found to have been distributed to the public, the CCO will discipline the Representative according to the violation.
- xv) *Exaggerated or untrue statements.* Representatives are prohibited from making any statement or representation that is untrue or that exaggerates the advantages of any security.
- xvi) *Failure to comply with suitability standards.* Representatives are prohibited from recommending to a client the purchase, sale, or exchange of any security without a reasonable basis to believe that the recommendation is suitable or consistent with the client's investment objective.
- xvii) *Failure to properly transmit funds and documents.* Representatives are prohibited from failing to promptly transmit funds and documentation to IBSI. Unless otherwise stated, "promptly transmit" shall mean by the end of the business day. Checks must be forwarded to the Corporate Office for deposit to the client account immediately. Holding client checks, stock certificates or negotiable instruments overnight is not allowed. Stock certificates must be sent directly to Penson. If a certificate is received by the firm it will be returned to the client so they can forward directly to Penson.
- xviii) *Failure to provide offering document.* Representatives are prohibited from failing to provide the applicable current prospectus to a client prior to or concurrently with the sale.
- xix) *Fictitious accounts.* Representatives are prohibited from effecting transactions in securities for an account operating under a fictitious name, unless proper documentation and review has been done by the CCO.
- xx) *Guarantee of future performance.* Representatives are prohibited from warranting or guaranteeing the future value or price of any security, or indicating that any company, sponsor, or issuer will meet its promises, predictions, projections, forecasts, or obligations.
- xxi) *Holding funds/securities.* Representatives are prohibited from personally holding a client's funds or securities.
- xxii) *Inconsistencies with offering document.* Representatives are prohibited from making any statement which is in addition to or inconsistent with any current memorandum or current prospectus.
- xxiii) *Inducement.* Representatives are prohibited from giving any item that could be considered as an inducement for the sale of securities.
- xxiv) *Minors.* Representatives are prohibited from opening an account for a minor, unless the account is custodial through an adult.
- xxv) *Non-security transactions.* Representatives are prohibited from engaging in any non-approved investment transactions for others, whether or not involving a security, unless approved, in writing, by the CCO prior to any offers being made.
- xxvi) *Orders.* Representatives are prohibited from entering orders for a client without the client's prior approval, unless the discretionary relationship has been pre-approved by the CCO.
- xxvii) *Private information.* Representatives are prohibited from revealing to any outsider private information relating to the financial affairs of any client without his approval, or

- from indicating to a client that the Representative possesses information not otherwise publicly available.
- xxviii) *Profits interest.* Representatives are prohibited from receiving, directly or indirectly, a share in the profits or losses of any client account.
 - xxix) *Rebating commissions.* Representatives are prohibited from rebating any commissions to a client.
 - xxx) *Written recommendations.* Unless the CCO provides written authorization, Representatives are prohibited from providing custom written securities recommendations or research reports. This in addition to proper licensing requirements by FINRA.
 - xxxii) *Futures and Commodities-* Representatives are prohibited from conducting transactions in futures or commodities unless properly licensed to do so.

Even if requested by the customer, Representatives are prohibited from executing any document in the customer's name. **NO EXCEPTIONS. CLIENTS MAY NOT SIGN BLANK FORMS AT ANY TIME.**

3. Non-Cash Compensation Rules

Representatives may not accept any non-cash compensation or sales incentive item, including, but not limited to, travel bonuses, prizes and awards except as follows:

- The aggregate value of all such items paid to a representative by a sponsor or affiliate during any year does not exceed \$100.00;
- The value of all such items is included in the organization and offering expenses;
- The proposed payment of such items is disclosed in the prospectus.

IBSI does not allow Registered Representatives to participate in incentive-based promotions offered by mutual fund, insurance or any other investment company. This policy also applies to private offerings. There are no deviations from this policy. Supervision of this policy will be reviewed during branch audits by the branch examiner.

S. COMPLIANCE DEPARTMENT PROCEDURES

1. Reports Reviewed Daily

i) Daily Commission Report

The CCO reviews the report on a daily basis. It is reviewed for prospectus product switching, front running, excessive trading, improper trading, excessive commissions and any other regulatory or firm rule violation. To address the need to supervise the accounts at IBSI, the "Blotter" is used to find evidence of the above violations. The following procedures for properly reviewing the report must address:

- (a) Investment objectives of client.
- (b) Total net worth and annual income are suitable for investment.
- (c) Commission guidelines are being followed.
- (d) Age of client does not conflict with trading pattern.

After the CCO reviews the report, all accounts defined as active will be flagged and added to a spreadsheet. The accounts on the spreadsheet will have a P/L report run to determine if any churning or commission overcharging has occurred.

ii) Various Reports

Options; Missing Documents (weekly); Trade Breaks

Each of these reports are reviewed daily to assist in supervision and operational duties.

iii) P/L Report

To assure that overall trading supervision is being done properly, the P/L report will be used on an as needed basis. A random sampling of accounts as flagged by the CCO will be reviewed. The following items will be reviewed to prevent trading violations from occurring.

- (a) Profitability and market value of account versus commissions generated.
- (b) Asset turnover versus client objectives and risk preferences.
- (c) Churning and unsuitability issues will also be analyzed.

If a letter is deemed to be necessary by the CCO, based on the outlines above, then the letter to be sent to the client will be faxed to the branch manager (to be forwarded on to the Representative), prior to mailing.

The CCO will follow up on problems or infractions, other than active accounts, by notifying the representative and requesting an explanation for the occurrence. Brokers will be given 30 days to return a response with explanations to the CCO.

Spreadsheet tracking and documentation will be used to follow up on all matters. Brokers not responding to requests from the CCO will face increased monitoring, withholding of commission and possible fine and/or suspension.

The CCO or CEO will make branch visits to follow-up on major problems discovered during report reviews and the annual branch audits done by the CCO.

2. Order Flow Disclosure Statement

An annual acknowledgement form will be sent to all IBSI customers in their year-end statement disclosing the fact that we may, on some occasions, receive an order flow rebate or fee. This statement is being sent by Penson Financial Services on our behalf. The IBSI web site will contain information concerning order flow arrangements with a statement notifying clients that they may receive specific order flow information on specific trades by making a request in writing to the CCO.

3. Disciplinary Procedures

Fines and/or suspensions assessed with regard to a specific violation shall be decided on and imposed by the CEO and where applicable, reported to regulatory agencies. A record of any fines or suspensions will be maintained in the Representative's file.

4. Regulatory Disclosure Procedures

Due to regulatory changes and requirements, IBSI is required to send out a "Privacy Policy Statement" and "Margin Disclosure Statement". All new account holders must receive a copy of these disclosures at the time the account is opened. The CCO is responsible for tracking and assuring the Operations department has sent the disclosure out to these clients. The mailings will be tracked on a spreadsheet maintained by the Operations Department. A copy of both of these disclosures will be available on the IBSI website. The opt out policy will not apply to IBSI due to the fact that IBSI does not share any information with any firm other than Penson Financial Services and other investment companies for the explicit purpose of clearing and processing securities transactions. However, all customer correspondence regarding the policy statements will be maintained and acted upon by the CCO. These procedures will be evaluated annually during the Internal Audit. The privacy policy statement will be provided annually by our clearing firm as an enclosure in a monthly statement. However, an offer is made monthly on the account statements to each client receiving a statement. This privacy statement can be requested via the website or phone. Both of these options are given to clients on the statements each month.

5. Maintenance of Books and Records

The CCO will maintain all required books and records or supervise those operational staff who may enter some blotter information. Most of the required blotters will be maintained by the clearing firm, Penson. Some of the blotters to be maintained by IBSI and Penson will include:

- i) All blotters recording purchase and sales and receipt and delivery of checks. All in electronic format. Securities will not be received by IBSI so any certificates that need to be processed must be sent directly to Penson. Any certificates sent directly to IBSI will be returned to the client to be forwarded on to Penson.
- ii) Order memorandums for all purchase and sales.
- iii) Confirmations of all purchase and sales in electronic format.

All other ledgers and blotters under SEC rule 17a-3 and 17a-4 will be maintained by Penson Financial Services. These required blotters will be reviewed and audited by the COO on a daily, monthly and annual basis depending on the blotter in question. Any deficiencies will be brought to the attention of the CEO and the Compliance department at Penson Financial Services.

T. INVESTMENT ADVISORY ACTIVITIES

Any Representative of IBSI may perform investment advisory activities (IA) provided that written approval is given by the CCO, required licenses are obtained and the CCO deems the Representative has appropriate knowledge or experience to conduct such activities. IA activities will consist of fee based portfolio management and other activities listed in the ADV II provided by the representative or the R.I.A., Integrity Capital Management. See Integrity Capital Policies and Procedures.

U. PRIVATE SECURITIES TRANSACTIONS & OUTSIDE BUSINESS ACTIVITIES

“Private” or “Outside” business activities conducted by IBSI Representatives will be monitored by supervising principals and are subject to approval (when applicable) by the CCO. When approval is required, it must be requested and made in writing, and the written approval must remain on file in the branch office. The written request must describe the transactions, describe the role the IBSI Representative will have in the transaction, and contain a listing of the clients who will be involved in the private securities transactions. Thereafter, each Representative must reflect any outside business on the Outside Business Activity Form filed with IBSI on an annual basis.

Every IBSI Representative and Principal has an affirmative responsibility to be aware of these requirements and to complete the requisite approval process before engaging in any activities. Questions should be submitted to the CCO in writing and a record of the response maintained in the Representative’s records.

1. Private Securities Transactions

Conduct Rule 3040 of the FINRA provides that any Representative who participates in a securities transaction away from his broker/dealer must, prior to such participation, provide written notice to the broker/dealer, describing the proposed activity and stating whether a selling compensation will be received. The broker/dealer must then respond in writing whether it approves or disapproves of the activity. In short, if involved in Section 40 activity, a Representative must obtain prior approval in writing. Note that a mere disclosure of such activities (e.g., reporting on IBSI’s Outside Business Addendum) is not sufficient.

IBSI is required to record and supervise private securities transactions, so compensation may be subject to standard IBSI payout sharing arrangements, depending on the nature of the securities transaction.

2. Employee and Registered Representative Accounts

Rule 3050 of the FINRA Conduct Rules and NYSE Rule 407 places additional restrictions regarding the opening and maintenance of accounts owned or controlled by representatives or associated person

at FINRA firms other than the ones with which they are associated. Pursuant to this rule, the representative opening the account must notify in writing both IBSI and the firm where the account is to be opened. This notification must be completed prior to opening the account or placing an initial order for the purchase or sale of securities. If the account was opened prior to the person's association with the current member firm, written notification is required promptly after becoming associated with the new firm.

This rule does not apply to transactions in unit investment trust, variable contracts or mutual funds. To comply with this rule, IBSI Representatives must provide the written notice to the CCO. The CCO will then provide written permission for the account to be opened and request duplicate confirmation statements and account statements, for compliance reviews. This notification will be sent to the Compliance Department of the firm where the account is to be held. All statements received for review will be maintained by the CCO and all reviews will be evidenced by a mark.

3. Required Approvals

Offering any security not listed in IBSI's Approved Products List, specifically including so-called "exempt" or alleged non-securities "deals" is strictly prohibited. It would constitute selling away and may result in a fine, letter of reprimand or termination. IBSI policy on such deals is clear and unyielding.

- i) Each transaction must be approved in advance by the CCO. The expense of this exercise and, if necessary, the cost to obtain a qualified legal opinion will be borne by the promoter or general partner, not IBSI.
- ii) Each must pass inspection as to the economics, fairness, and primary people involved. Again, the costs will be borne by the promoter or general partner.
- iii) All commissions or dealer re-allowance will flow to IBSI, and will be re-allowed in accordance with the standard payout schedule then in effect.

Failure to conform to these simple rules places both the Representative and IBSI at considerable risk. Therefore, *non-compliance will be grounds for immediate dismissal for cause from IBSI.*

Some activities that may not be done privately, but must always be done through the customary IBSI paperwork channels, procedures, and policies, include: money managers, market timers, advisory service providers, wrap-fee programs, and unregistered group variable annuity.

4. Outside Activities

Rule 3030 of the FINRA Rules of Fair Practice require all Representatives to provide prompt written notice to his or her firm of any business activity, other than passive investments, outside the scope of the Representative's relationship with his broker-dealer. Therefore, IBSI Representatives are required to notify the CCO, in writing, of all outside compensation derived from business activities that are not under IBSI's supervision. These activities neither involve securities, nor are placed through or supervised by IBSI, and therefore require only written notification.

Examples of outside business activities about which IBSI must be notified, but which are not subject to IBSI's supervision, include:

- i) Preparation of financial plans;
- ii) Financial consulting/advisory services not relating to investment portfolios or transactions;
- iii) Sale of non-variable insurance and annuity products through a general agreement; and
- iv) Legal, bookkeeping, accounting, real estate, precious metals etc.

Although the above explanation of FINRA requirements is presented so that Representatives may understand the regulations more fully, all IBSI Representatives must adhere to the following specific IBSI policies:

- i) No Representative may accept any employment or render any investment advisory service for a fee without prior approval by the CCO. The consent of regulatory authorities may also be required.
- ii) All relationships for which a Representative is remunerated shall be disclosed to IBSI prior to entering into such relationship. IBSI shall have the right to approve or disapprove such activity.
- iii) Directorship on any other corporation, whether publicly or privately held, must be reported to IBSI's CCO.
- iv) No Representative may share office space with Representatives, who are registered with other broker/dealers, except as approved in writing by IBSI's CCO.
- v) No Representative or employee may use knowledge or expertise gained in the course of his relationship with IBSI for private benefit (other than for personal securities investments), nor shall any Representative use such knowledge or expertise for the benefit of any enterprise which is, or could be, in direct or indirect competition with IBSI, regardless of whether the Representative is connected, directly or indirectly, with such enterprise.

V. INSIDER TRADING

Insider trading is defined as "purchasing or selling a security while in possession of material, non-public information in, or communicating such information in connection with, a transaction on or through the facilities of a national securities exchange, or from or through a broker or dealer, and which is not part of a public offering by an issuer of securities other than standardized options."

The Insider Trading and Securities Fraud Enforcement Act of 1988 imposes substantial responsibilities on broker-dealers and any "controlling person" (defined by ITSFEA of 1988) to take proper steps to prevent the misuse of such information. The act also describes substantial penalties to be imposed upon those individuals who engage in insider trading activities and upon those controlling persons who, because of inappropriate action, fail to prevent such activities.

The following is the Policy Statement (on Insider trading and updates and periodic information concerning their responsibilities and obligations to comply with the federal insider trading rules and regulations. Written guidelines are provided as reminders of compliance requirements, changes in rules and any other relevant information in an effort to prevent insider-trading abuses.

In accordance with the rules and regulations of the Insider Trading and Securities Fraud Enforcement act of 1988, representatives are strictly prohibited from gaining profit, avoiding loss, or otherwise misusing or directly or indirectly benefiting financially or otherwise from any material non-public information. Furthermore, each Representative must conduct his or her personal and professional affairs in a manner that, by avoiding insider trading activities or the appearance of such activities, upholds high standards of commercial honor and just and equitable principles of trade.

Prohibited activities relating to insider trading include, but are not necessarily limited to, the following:

- (a) Trading in any account, individual account, or discretionary account in a security, option, bond or warrant while in possession of important non-public information, such as, but not limited to, the advance knowledge of a tender offer underwriting or block transfer.
- (b) Providing any material, non-public information to any customer, relative, associate or any other individual, who then trades in securities or otherwise directly or indirectly benefits from such information.
- (c) Sharing or otherwise having an interest in any account establishing a fictitious or nominee account for the purpose of concealing such interest in an account that gains a profit, avoids a loss, or otherwise directly or indirectly benefits, financially or otherwise, from material non-public information.
- (d) Engaging in any other device, scheme or contrivance to directly or indirectly benefit, financially or otherwise from important non-public information. If material non-public information is obtained or comes to light related to a security that is already part of any account, no further purchases or sales shall be made until the information is no longer material, or becomes public.

When transmitting orders for their customer, Representatives should pay special attention to their customer's occupation, title or position and Officer/Director status, to detect and prevent possible insider trading violations. This may also apply to the immediate family of the customer.

If a representative believes that he has knowledge of information on any security that might be considered inside information, he or she is prohibited from discussing or communicating the information in anyway. The representative must immediately contact the CCO and disclose any and all information he/she possesses. The CCO will conduct an investigation to determine if the information in the representative's possession is in fact material, non-public information. If it is determined that the information is insider information that has not been made public, the CCO will place the security on a "RESTRICTED STOCK LIST". All representatives and any associated person of IBSI will be prohibited from making any transactions for themselves or for any public customer in a stock on the Restricted Stock List without the prior approval of the CCO.

If IBSI discovers insider-trading activities on the part of a representative, the CCO will be legally obligated to take immediate action. Depending upon the severity and scope of the insider-trading activities, such action may include but not necessarily be limited to one or more of the following:

- Notification to SEC, FINRA or appropriate state regulatory authority of violations and disciplinary action taken.
- Freeze all account activity pending resolution of issues or problem.
- Comply with state or federal action and rules regarding the disposition of the accounts.

Federal regulations require that IBSI maintain a file on all insider-trading violations discovered and disciplinary actions undertaken, which will be placed in the representative's registration file, or in a separate file for disciplinary actions. The file shall contain complete documentation on the nature of the insider trading cause for disciplinary action taken, the specific fines or penalties imposed, the response of the individual disciplined, any other corrective actions taken by the CCO, and copies of all written reports to the FINRA and other regulatory bodies.

Representatives will acknowledge their understanding of these rules and guidelines during the Annual Compliance Meeting. (See section)

The daily review of all trades, conducted by the CCO, is designed to assist in discovering insider trades. This coupled with an investigation into insider relationships will lead to the actions noted above. The CCO is responsible for these reviews on a daily basis.

W. CONTINUING EDUCATION REQUIREMENTS

All IBSI Representatives will be responsible for meeting the FINRA's requirements for Continuing Education as a condition for ongoing registration with the firm. The Continuing Education program has two separate elements: Regulatory and Firm.

1. Regulatory Element

The Regulatory Element focuses on compliance, regulatory, ethical and sales practice standards. The Regulatory Element is delivered through a computer-based training program, which employs a series of realistic situations and interactive instruction. The FINRA requires that all Registered Representatives complete this program at a FINRA sponsored testing center. The Representative must complete this Element within 120 days on the second anniversary date of initial registration with the FINRA and every three years thereafter. When the FINRA, via web CRD system, notifies IBSI that such an anniversary is approaching, IBSI will contact the Representative (see below).

On a weekly basis the Registration Department will check the Regulatory Continuing Education status on WEBCRD. Registered Representatives will be notified of their respective windows for completion of the Regulatory Element. Notices will be provided based on the following schedule:

First email notice:	Date window opens
Second email notice:	60 days prior to end date of window
Verbal communication:	15 days prior to end date of window

If the Regulatory Element is not completed the representative's registration will become inactive with the FINRA. IBSI will not allow the representative to be in the office or do any business until the Regulatory Element is completed. IBSI will withhold commissions until the continuing education is complete. Written notification to cease all business will be sent to the Representative as well as the Branch Manager, Trading Department, Commissions Department and CCO. IBSI will not grant exceptions, as this is a mandatory requirement. Failure to complete the Regulatory Element could result in a suspension and/or fine by the FINRA.

2. Firm Element

IBSI has created a Firm Element training plan that incorporates a needs analysis into defined requirements for all Representatives. Every Representative must attend one hour of continuing education training approved or hosted by IBSI every year (in the form of meeting, phone conference or questionnaire completion). And each year the Registered Representative Questionnaire must be reviewed and completed. These are two of the ways IBSI transmits new compliance info to Reps.

If a representative fails to comply with either element of Continuing Education within the prescribed time frame, their registration will be deemed inactive until the requirements have been completed. If the representative is deemed inactive, they must cease all activities as a registered representative.

On an annual basis, the CCO will affect a Needs Analysis to determine what areas of continuing education will be of benefit to registered individuals of the firm. All registered persons will be required to participate in the firm's continuing education program (even though contact with customers may not be included in the individual's job description).

To evaluate and identify the firm's training needs for the coming year, the CCO will no later than the end of November of each year, gather and correlate information.

Techniques, which may be used to determine the firm's educational requirements, include, but may not be limited to the following:

- (a) Broker Surveys
- (b) Current Legal and Regulatory Developments
- (c) New Rules and Regulations enacted during the preceding year
- (d) Review of Customer Complaints, Arbitrations, Litigation
- (e) Internal Disciplinary Actions or Cautions
- (f) Regulatory Sources
- (g) Quarterly performance of the firm in the Regulatory Element

After this information has been gathered, the CCO will review it and then prepare a written training plan for the coming calendar year. The training plan will be implemented for the following calendar year according to a developed schedule and will include information from outside sources, as well as training materials prepared by the firm.

Detailed records of the training plan and completion by registered personnel will be maintained by the CCO to ensure completion no later than year-end.

Exceptions from the continuing education training program requirements may be granted to individuals who join the firm after November 1 of any year.

3. Annual Compliance Meeting

The CCO, either during the annual branch audit or a general meeting of the Representatives, will hold the annual compliance meeting. The topics covered will be a direct result of the needs analysis performed by the CCO. However, the meeting will always include Insider Trading Rules and the signature by each representative will acknowledge their understanding of the Insider Trading Prohibitions. Representatives will be required to sign a list or email confirmation during these meetings and the list will be maintained by the CCO to verify completion of the requirement.

X. RECEIPT OF CLIENT FUNDS OR SECURITIES AND SECURITY OF RECORDS

IBSI is a \$5,000 net capital broker/dealer and thus do not hold securities or checks. If the firm receives a check from a client we will promptly forward these to Penson Financial Services, our clearing firm. These will be sent same day or by noon the next day at the latest. All checks for customer accounts must be made payable to Penson Financial. Any check not made payable to Penson will be immediately returned to the client and a new check will be requested made payable to Penson Financial. Stock certificates will not be processed by IBSI. All stock certificates must be sent directly to Penson Financial. If a certificate is sent to IBSI it will be returned to the client so they can forward on to Penson directly. All client records, information, securities and checks will be protected and kept with 100% confidentiality. No person has any contact or access to any of the records, information, securities and checks other than the CEO. All client records not maintained by IBSI will be shredded by the CEO daily. All electronic information is backed up to save client records and passwords are used to maintain security at many levels. No employee training is necessary and no outside firms are used to store any information except the email provider and our clearing firm. We do not utilize Wi-Fi or remote access and all computers are fire walled to protect all the information contained.

Y. REVIEW OF CORRESPONDENCE

1. Incoming

Home Office. The CEO, will open and date stamp all incoming mail immediately upon receipt and insure that all checks are promptly forwarded to the proper operations area for processing, and that client complaints or regulatory inquiries are promptly routed to the CCO. Stock certificates will not be processed by IBSI. All stock certificates must be sent directly to Penson Financial. If a certificate is sent to IBSI it will be returned to the client so they can forward on to Penson directly. Per Rule 3110, IBSI will not under any circumstance, hold clients mail for any period of time.

Branch Offices. The OSJ, or his/her designee, who will follow the same procedures as the home office, to open all branch mail. Per Rule 3110, NO branch, under any circumstance, hold clients mail for any period of time.

2. Outgoing

The home office compliance staff or the OSJ PRIOR to mailing shall approve all correspondence relating to the solicitation or execution of a security transaction. Examples of letters of a solicitous nature would include, but not be limited to, those suggesting specific stocks, industries, or products, or those telling a potential client of the services available through the Representative's relationship with IBSI. Initialing and dating of the correspondence document will evidence OSJ branch manager approval. The MSP will initial correspondence relating to municipal securities. The CCO will initial correspondence relating to options solicitation.

A centralized file will be maintained for all outgoing correspondence to clients pertaining to the solicitation or execution of a transaction. All correspondence will be kept in the home office and the branch for a period of three years.

3. Internal Correspondence

All correspondence between Registered Reps and IBSI are reviewed and maintained in the "Broker Correspondence" folder in the home office. This review is conducted and maintained by CCO/CEO. It is reviewed daily and maintained permanently. Further evidence of this review is logged in "Daily Report Review" spreadsheet.

Z. Electronic Correspondence

The SEC and FINRA are actively monitoring electronic communications. With the advent of locating services known as "search engines," the task of the regulators has become much easier. All representatives who utilize electronic communications must comply with the same standards as for other forms of communications

1. Web Sites

FINRA states that websites are advertising. Therefore, it must be reviewed by IBSI's CCO for prior approvals, record keeping requirements and, if applicable, filing with FINRA. Since a website may be viewed by anyone in any state (and the rest of the world), care must be taken that the publisher of a website is licensed in all states or disclosure of those states where the representative is registered must be included prominently on the website.

The use of "hyperlinks" to the websites of issuers is also advertising material and must only reference IBSI pre-approved materials for securities. The CCO must approve the website content in advance of its use, therefore the link data must be provided at the same time. Since the content of both the site and the links change frequently, it will remain the representatives' responsibility to see that each change is presented to the CCO for prior approval.

Also, remember that many sites are protected from use. Please review each sites DISCLAIMER INFORMATION. The CCO/CEO is the only authorized person to make changes to the website. Any changes to the website will be logged on the "Daily Report Review" spreadsheet with the specific changes made. The website for IBSI is a password protected FTP site and only the CCO/CEO has this password to enter any changes.

2. Bulletin Boards

The posting of names, addresses or other information to an electronic bulletin board constitutes advertising and must be treated the same as other advertising or sales literature. If you are providing investment advice for compensation, either directly or indirectly, you are also required to register as an Investment Advisor or Associate of IBSI's Investment Advisor in a number of states that require separate licensing for these activities. Care should also be taken that a potential client cannot avoid

disclaimers and a required disclosure as a viewer jumps from page to page within the website. However, bulletin boards are currently **not allowed** for use by Representatives of IBSI.

3. E-Mail

All correspondence between the representative and a client or prospective client must be reviewed and acknowledged by the branch manager. When sending email it must be approved prior to sending. The record keeping requirements are the same as any other correspondence. It must comply with Rule 2210 of the FINRA's Conduct Rules. The branch manager must receive and approve all communications to clients and provide approval to the rep, after review, within 1 business day. All emails will be reviewed and saved by CCO in client correspondence file. Reps are prohibited from using an email address other than the one provided by IBSI with an @integrity-brokerage.com ending. All incoming emails will be reviewed to assure this policy is being complied with. In addition, we utilize LiveOffice to capture ALL emails and archive them per rule. This service preserves the records exclusively in a non-rewriteable, non-erasable format. The services will also verify automatically the quality and accuracy of the storage media recording process. It will also serialize the original and/or duplicate units of the storage media and time stamp the records for the required retention period. The service also allows the capacity to download stored records and indexes to any medium acceptable under SEC Rule 17a-4(f), upon request of the SEC or Self regulatory organizations of which IBSI is a member.

4. Chat Rooms

"Chat Rooms" allow a number of actual or potential customers to communicate with others who have a similar interest. In effect, it is somewhere between the correspondence analog of E-mail and the advertising of a website. It is possible to conduct a dialogue with twenty to fifty people at the same time. These are viewed as similar to a sales seminar. Since the requirements of prior prospectus delivery and the maintenance of a log of attendees is impossible, participation is prohibited if any reference is made to any securities business or investment banking information **without prior written permission of the Compliance Department.**

E-mail and the Internet have become commonly accepted forms of conducting business over the past several years. The free form and casual nature of these two mediums of communication can lull the user into believing they are harmless tools. This is not the case. E-mail and the Internet may replace other, more formal forms of communication; however, they remain forms of business communication which are subject to all the rules and protocol associated with other forms of communication. More specifically, all the industry rules and ethical business practice expectations apply to these two forms of communication.

Further, please keep in mind these communications' methods are open, public forums. **There is no privacy** associated with the communication and IBSI or branch manager is required to maintain copies of all e-mail in accordance with the record keeping requirements of the industry. These records are available to regulators and to participants in customer complaints or litigation.

IBSI has adopted the following policies and guidelines for e-mail and the Internet.

5. Internet Policies

- E-mail may not be used to transmit language or material, which an independent, objective person would find objectionable or which may be illegal. No language or material may be sent which could be construed as discriminatory, sexually explicit or harassing. Such material could lead to disciplinary action up to, and including, termination. All e-mails will be maintained by Network Solutions on behalf of IBSI and is subject to scrutiny by regulators and aggrieved third parties.
- E-mail or Internet messages sent to more than one person must be pre-approved by the IBSI CCO. Messages and other material sent to 2 or more people, or general distribution messages which *could* be seen by 2 or more people, are considered sales literature.

- Customer orders may not be accepted via e-mail. E-mail does not conform to the record keeping requirements for orders. In addition, there can be no assurance that e-mail will reach its destination in a timely manner. E-mail can be held in queue for up to three days on the Internet before it is delivered to you or rejected back to the sender.
- Copyrighted material, including clearing firm research, may not be transmitted by e-mail or over the Internet without the appropriate approvals. In addition, “internal use only” and confidential materials are not to be transmitted by e-mail or over the Internet.
- The IBSI name may not be used on the Internet without the prior approval of the CCO.
- Associated persons may not participate in chat-rooms and bulletin boards, or other such open forums, discussing individual securities, without prior written consent from the CCO. Such participation could be construed as touting or soliciting a security, or offering recommendations to persons in States where the individual is not registered and without the necessary “know your customer” suitability information.
- Professional language and ethical business practices are to be used and honored at all times.
- E-mail and Internet use are business activities subject to the professional protocol due all business communication and activities.
- Associated persons **may not** establish or sponsor a website without the prior written consent of the CCO.

AA. REVIEW OF COMPLAINTS

A complaint is defined as "any written statement by a client or person acting on behalf of such client alleging a grievance involving the activities of those persons under control of the member in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that client." Complaints must be reported to the FINRA on a periodic basis.

- i) The Branch Manager is responsible for ascertaining that all written client complaints received by his branch are reviewed and forwarded promptly to the CCO, and that a response is promptly returned.
- ii) Complaints pertaining to municipal securities will be initialed and reviewed by the MSP. These will be maintained for 6 years.

- iii) Any complaint received at a branch office (including an OSJ) will be immediately forwarded to the CCO, who will research the matter and respond to the complaint. The OSJ branch manager will immediately fax (if possible) to IBSI any written complaint, and will advise the CCO by phone or in writing of any potential complaint. These will be maintained 6 years.
- iv) A central, chronological complaint file of client complaints and written responses will be maintained in the home office for at least six years. A file will be maintained at OSJ branch level, as well.
- v) If a representative is the subject of three customer complaints (which include arbitrations and lawsuits), during a one-year period, the CCO may determine that he or she should be subject to heightened supervision. If so, such procedures will be developed by the CCO and the branch manager to address the issue raised in the complaints and a time period will be established for this type of supervision.
- vi) The CCO will then update the CRD system by adjusting the brokers' U-4, if applicable and will make the 3010 notification on the FINRA website. Both of these adjustments will be made after approved by the CEO.
- vii) A complaint will be defined as and handled by the CCO using the procedures above for any client initiated issue that could result in a settlement or judgment against the broker or firm in excess of \$5000.
- viii) Per rule 3070 the CCO will report any of the 10 events in the Rule within 10 business days after we are aware of an issue. The information surrounding the event will then be filed by the 15th calendar day via the 3070 online system. The following are the disclosure trigger events:

(1) has been found to have violated any provision of any securities law or regulation, any rule or standards of conduct of any governmental agency, self-regulatory organization, or financial business or professional organization, or engaged in conduct which is inconsistent with just and equitable principles of trade; and the member knows or should have known that any of the aforementioned events have occurred;

(2) is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery;

(3) is named as a defendant or respondent in any proceeding brought by a regulatory or self-regulatory body alleging the violation of any provision of the Act, or of any other federal or state 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 regulatory or self-regulatory organization;

(4) is denied registration or is expelled, enjoined, directed to cease and desist, suspended or otherwise disciplined by any securities, insurance or commodities industry regulatory or self-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;

(5) 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;

(6) 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 which was suspended, expelled or had its registration denied or revoked by any agency, jurisdiction or organization or is associated in such a capacity with a bank, trust company or other financial institution which was convicted of or pleaded no contest to, any felony or misdemeanor;

(7) is a defendant or respondent in any securities or commodities-related civil litigation or arbitration which has been disposed of by judgment, award or settlement for an amount exceeding \$15,000. However, when the member is the defendant or respondent, then the reporting to the Association shall be required only when such judgment, award, or settlement is for an amount exceeding \$25,000;

(8) is the subject of any claim for damages by a customer, broker, or dealer which is settled for an amount exceeding \$15,000. However, when the claim for damages is against a member, then the reporting to the Association shall be required only when such claim is settled for an amount exceeding \$25,000;

(9) is associated in any business or financial activity with any person who is subject to a "statutory disqualification" as that term is defined in the Act, and the member knows or should have known of the association. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification; (10) is the subject of any disciplinary action taken by the member against any person associated with the member involving suspension, termination, the withholding of commissions or imposition of fines in excess of \$2,500, or otherwise disciplined in any manner which would have significant limitation on the individual's activities on a temporary or permanent basis.

BB. REVIEW OF ADVERTISING AND SALES LITERATURE

The procedures in this section pertain to all option, municipal security and regular advertisements and will be approved as needed by the CCO, MSP or CCO as appropriate.

Rule 2210 of the FINRA Rules of Fair Practice defines communications with the public, which includes "advertisements" and "sales literature," as follows:

Advertisements include: material published or designed for use in a newspaper, magazine or other periodical, radio, television, telephone or tape recording, videotape display, sign or billboard, motion picture, telephone directory, or other public media.

Sales literature includes: written correspondence distributed or made generally available to clients or the public, when the communication does not meet the foregoing definition of advertisement. It includes, but is not limited to, circulars, research reports, market letters, performance reports or summaries, form letters, standard forms of worksheets, seminar texts, and reprints or excerpts of any other advertisement, sales literature, or published article.

- i) **Each item of advertising and sales literature will be approved in writing by the CCO PRIOR to its use.** All materials will be reviewed for misleading or inaccurate statements, and for proper disclosure of the member firm. Evidence of approval would include the compliance principal's initials and date of review on a copy of the advertisement or the prototype.
- ii) Any advertising pertaining to municipal securities will be approved, initialed, and dated by the MSP.
- iii) The CCO will maintain a centralized advertising file containing all advertisements for IBSI.
- iv) Each branch office will maintain an advertising file for all advertising or sales literature used by the branch, with evidence of OSJ branch manager approval.
- v) All business cards and letterhead for Representatives will, prior to being used, be reviewed and approved by the CCO for complete disclosure and accuracy.
- vi) Any speaking engagements or scripts must be pre-approved by the CCO **prior** to use. In some cases the material may be submitted to the FINRA for approval.

All Investment Company, variable product, CMO, DPP, and options advertising will be submitted to the FINRA's Advertising Department within ten days of use. The CCO has the prerogative of forwarding any advertisement/sales literature to the FINRA for approval. In such a case, the Representative will be subject to any filing fee imposed on IBSI by the FINRA. Advertising will be reviewed by the CCO to assure proper use and disclosure of "member FINRA and SIPC". Failure to properly use or improper use will cause advertising piece to be disallowed.

CC. COLD CALLS

On December 20, 1991, Congress adopted the Telephone Consumer Protection Act of 1991 ("TCPA"). The TCPA mandated that the FCC adopt rules and regulations governing certain telemarketing practices. Pursuant to the TCPA, the FCC established procedure for avoiding unwanted telephone solicitations by businesses to residences in accordance with the TCPA's requirements. The FINRA

requires that IBSI maintain a centralized listing of all individuals who do not wish to receive telephone solicitations (FINRAR Rule 3110).

These rules and regulation only apply to cold calling. They do not apply to established customers.

Under the regulations the laws of many states, a business, which makes telephone solicitations to residential telephone subscribers, must:

- Maintain a "do-not-call" list of persons who do not want any future telephone solicitations from that business and its employees;
- Have a written policy for maintaining a do-not-call list;
- Train personnel engaged in any aspect of telephone solicitation in the use of the "Do Not-Call" list;
- **Do not call a residence before 8:00 a.m. or after 9:00 p.m., IN THE CUSTOMER'S LOCAL TIME ZONE** (for example, if you are located in the Midwest and intend on calling someone on the West Coast, you must delay your call until it is 8:00 a.m. in the customer' time zone);
- Immediately provide the called party with the caller's identity, and either the telephone number or address (**SEVERAL STATES REQUIRE THIS DISCLOSURE BE MADE WITHIN 30 SECONDS**).

The FCC and the various state jurisdictions where we do business require IBSI to maintain a national do-not-call list. **When a consumer tells an associated person of IBSI that they do not wish to be contacted again, the IBSI associated person must contact the CCO.**

The registered representative should include the customer's name and ALL telephone numbers where the customer might be reached. If the customer has more than one telephone line, they must provide all numbers to be excluded.

Information regarding those individuals, who have requested that they be placed on the firm's Do Not Call List, is available from the CCO. It is also, available on the IBSI corporate website.

In addition to the above-listed requirements, the rules restrict the use of automatic telephone dialing systems, prerecorded artificial voice messages and telephone facsimile machines, all of which are not used commonly by securities firms. As with any form of mass communication, the telephone script must receive prior approval by the CCO.

DD. REPRESENTATIVE SUPERVISION AND TRAINING

1. Supervision

The Branch Manager is responsible for disseminating information between the CCO and the Representative's in the office on compliance-related matters. The Branch Manager may designate another qualified person to assist in this capacity. This must be done in writing and a copy of the designation must be forwarded to the CCO.

All OSJ branch offices report to the home office. The responsibility for supervision at the home office lies with the principals as recorded on the enclosed "Designation of Supervisory Jurisdiction". Authority to supervise will only be granted based on specific determining qualifications including: experience, training, knowledge and appropriate licensing. All individuals must be deemed acceptable by the CCO.

The CCO is responsible for establishing and keeping current a set of written supervisory procedures, and a system for applying such procedures, which may be reasonably expected to detect and prevent any violations of federal or state securities law or regulations, including FINRA rules.

2. Training

Policies & Procedures Manuals are presented via website access or in written format to all Representatives when they join IBSI by the CCO. Each Representative is required to sign a form

acknowledging that he has read the manual, understands it, and will abide by the policies described. Representatives are encouraged to call the CCO for answers to any questions.

Compliance Sessions are held during branch exams conducted throughout the year. Failure to meet the requirement will result in termination of the Representative's registration, unless written exemption is given by CEO.

The CCO conducts branch office inspections (BOI), during which Representatives are encouraged to ask questions or address any uncertainties about compliance with policy or regulation. Also during the inspection, the examiner will review client accounts and transactions, sales practices, and the branch's books and records.

When it comes to other training there are no employees at IBSI. There are only independent contractor Reps who are not given access to the firm except via Go-Trader and the Penson Connection website. This "training" is given at the time the Rep joins the firm and is not needed again. They only have access to their own client information and cannot access any other IBSI programs or files. All privacy training and acknowledgement is done via the Reps annual attestation.

EE. BUSINESS CONTINUITY PLAN (BCP)

IBSI maintains an up to date BCP in the event of a catastrophic disaster that would prohibit the firm from conducting a securities business and handle client service needs. The detailed plan is maintained by the CCO and updated as needed, but at least annually. The firm also posts the entire BCP on the company website for Registered Rep's and clients to review. The BCP Annual Audit will be conducted by the CCO annually to assure all aspects of the program are up to date.

- The BCP will be provided when an account is opened
- IBSI will make an annual offer to clients to receive a new copy of the BCP
- IBSI will make sure the BCP is always up to date and in place

FF. BOOKS & RECORDS RETENTION

The principals specified in the attached "Designation of Supervisory Jurisdiction" will ascertain that IBSI will maintain, at a minimum, the books and records listed below.

The CCO, through distribution of the Policies & Procedures Manual and the branch office inspection program, will supervise OSJ/branch offices to assure that the following books and records are being maintained:

- 1) Daily trade log (purchase & sales blotter)
- 2) Complaint file
- 3) Advertising file
- 4) Correspondence file
- 5) Client files (containing copies of applications, checks, order transmittal form, confirmations, client statements, correspondence, Client Account Forms, and all other documentation required based on account registration or transactions)
- 6) Speaking activity file
- 7) And other such files deemed necessary and required by the CCO

GG. INTERNAL AUDIT

- The CCO will review & update the Form BD at least once each year and report on its current accuracy.
- The CCO will review & update the Policies & Procedures Manual at least once each year and ensure its accuracy.
- The CCO will conduct an audit of the Operation Department's order processing, record keeping, and other functions at least once each year.
- The CCO will conduct an annual audit of all required books and records to determine that IBSI is retaining records in accordance with SEC requirements.

In addition to the annual audit, a quarterly checklist will be completed by the CCO to review the following items:

- Trade tickets (a random sample to ensure completeness and accuracy)
- New Accounts (random review all forms and all information for completion)
- Mutual Fund Switches (random review of switch letter)
- Naked Option Accounts (review that extra documentation is filed)
- Form BD update (review addresses and information for accuracy)
- Continuing Education (review status of CE program and progress)
- Branch Audits (review status of audit program and progress)
- Complaints (review and assure all firm complaints are reported to CRD)
- Money Laundering procedures have been followed and proper reporting has taken place to law enforcement or governmental agencies (see Money Laundering section).

This checklist will be maintained by the CCO and will serve to assist the firm in identifying problems or potential problems, which could lead to compliance violations.

HH. NET CAPITAL REVIEW

IBSI will maintain the minimum net capital requirement based upon its activity. It is understood that the minimum net capital must be maintained on a daily basis, and adequate excess net capital should be available as a safety margin. IBSI will formally compute net capital on a monthly basis, unless proximity to the minimum requirement necessitates more frequent calculations. The CEO is responsible for the proper and timely filings.

The FINRA is to be notified of net capital violations or proximity to IBSI's minimum net capital. If IBSI's computed net capital drops below the required minimum, IBSI must immediately notify the SEC and FINRA by telegram, and must file a Focus IIA within 24 hours. Additional Focus IIA will be sent for three consecutive months, indicating net capital in excess of 120% of the required minimum.

If net capital drops below 120% of the required net capital, IBSI will submit a Focus IIA for three consecutive months, documenting a net capital in excess of 120% of the required minimum.

II. FINANCIALS

Focus IIA reports are to be received by the FINRA's district and Washington DC offices no later than the seventeenth business day following the end of each calendar quarter. To be sent by the FINOP. IBSI's annual audited financial statements will be filed with the SEC, FINRA, and the states that require financials within sixty calendar days after the audit. To be sent by the FINOP.

All financials are under the control and supervision of the CEO. The independent CPA retained by the firm may with the consent of the CEO assist in some or all of the tasks above. The FINOP of IBSI will monitor these tasks for accuracy and completion.

All supervision of financial activities and for individuals who are involved in the maintenance of the books and records will be done by the FINOP. The FINOP will also supervise all individuals involved in the administration and maintenance of the member's back office operations.

JJ. Rule 3012

Joshua Helmle is responsible for maintaining and enforcing supervisory control procedures. These procedures will be tested during the Internal Audit (see above). The CEO will be responsible for making an annual certification every 12 months from the prior certification to attest that IBSI has

procedures in place to establish, maintain, review, test and modify our policies and procedures. The supervision will cover all client address and investment objective changes. As stated above this information is captured at account opening and followed up on every month on the disclosure statement located in each monthly statement. IBSI relies on the Limited Size and Resources Exemption and will continue to electronically request this exemption on the FINRA website. The Internal Audit will identify any broker who is subject to increased supervision based on the percentage of commissions generated vs. IBSI gross commissions. If the amount exceeds 20% of the gross the broker will qualify for increased supervision.

The annual report to senior management detailing the supervisory systems and summary of test results will be made at the Q1 board of director meeting where the results of the Internal Audit will be reviewed. Due to the one man operation there is no need to formally draft a letter to management.

KK. Regulation S-P

IBSI ensures the confidentiality of customer records and information. We process all account forms and maintain the hard copy records in a locked on-site facility. Any client statements that have been reviewed safeguarded on disc after review. This is done on a monthly basis by the CCO. All other documents are maintained electronically via the Penson website. Their website is password protected and resets the IP address throughout the day. IBSI sends out the privacy policy statement to all new clients, existing clients on an annual basis and makes the offer to receive a copy of the policy to all customers on the monthly statements. All hard drives, laptops and other technology are always secured in a locked office. All discarded devices are “cleaned” before sent to recycling. All paper is shredded prior to disposal. All physical files are secured in locked office with no public access. IBSI does not use any form of Wi-Fi. If at any time IBSI employs an outside vendor to provide any technological or computer support they will sign a confidentiality agreement to protect the information of all IBSI clients. We know all information must be protected and safe. IBSI understands that the safety of all equipment and access to client information must be maintained at all times. We maintain this security by using no outside vendors other than our clearing firm and Live Office for email storage. All physical documents are locked up or destroyed after use and all other information (the majority) is secured by the Penson Financial IT department. Any issues with a 3rd party will be dealt with CCO resolution will be his responsibility.

If IBSI was to employ any additional employees we will utilize a training session to make them aware of how important the confidentiality of both IBSI and its clients is to maintain. This training will include the signing of a confidentiality agreement so they understand how our systems work to protect client records.

LL. CORPORATE RESPONSIBILITY FOR MAINTAINING AND ENFORCING IBSI POLICIES AND PROCEDURES (WSP'S)

<u>Department</u>	<u>Name & Position</u>	<u>Effective Date</u>
Executive	Joshua Helmle Chief Executive Officer	January 01, 2002
Operations	Joshua Helmle Chief Operating Officer	January 01, 2002
Finance	Joshua Helmle Chief Financial Officer	January 01, 2002

Compliance	Joshua Helmle Chief Compliance Officer	August 01, 2006
Trading	Joshua Helmle Trading Supervisor	January 01, 2002
Options Principal	Joshua Helmle Chief Compliance Officer	January 01, 2002

MM. DESIGNATION OF OSJ OFFICES & BRANCH SUPERVISORS

<u>Office</u>	<u>Address</u>	<u>Supervisor</u>
Oceanside, CA	1945 Stewart St	Joshua Helmle (HZ)

NN. ASSIGNMENT OF REGISTERED PERSONS

<u>OSJ</u>	<u>Rep Name</u>	<u>Licenses</u>	<u>States</u>
002	Helmle, Joshua 1122 Vista Way Oceanside CA 92054	4, 7, 24, 28, 53, 55, 63, 65	CA,FL,GA, ME,MA,TX,UT
AWZ	Haller, Jim 1010 Keene La Habra, CA 90631	7, 63, 65	CA, WA
AW0	Ward, Daniel 120 Secluded Way Titusville, FL 32780	7, 24, 55, 63	AZ,CA,FL,HI,MD,TX,VA
AW4	Guiltinan, Frank 95 N. Meredith #1 Pasadena, CA 91106	7, 24, 63	CA, FL
AW7	Edwards, Kevin 1912 S. Freeman Oceanside, CA 92054	7, 63, 65	CA
AW9	Blumenfeld, Shimon 8733 Caminito Sueno La Jolla, CA 92037	7, 63	CA,GA,MD
AXC	Zuckerman, Daniel PO Box 1408 Nevada City, CA 95959	6, 7, 22, 63	CA,FL,NM,NY,WI
AW8	Martin Ramirez 5560 Rushmore St Ventura, CA 93003	7, 63	CA, TX
AXA	Al Woods 2740 Casey St San Diego, CA 92139		CA