

Wholesale/Administrative Reps Compliance Requirements

Introduction

The Leaders Group, Inc. is dedicated to a large and increasingly diverse set of insurance and planning professionals. These professionals' practices extend beyond the traditional high net worth individual marketplace to include middle market financial planning and income protection, as well as the most advanced individual and corporate benefits practices. We serve as the broker-dealer for several insurance brokerage general agents (BGA), facilitating the overrides and carrier relationships for the sale of variable life insurance.

The Leaders Group, Inc. provides compliance and commissions for our representatives. Our compliance philosophy is one of facilitating compliant business. We make an effort to know the business model of each of our representatives so we can protect their customers, protect the representative and protect the firm. Over the past 12 years, we have had fewer than 10 customer complaints.

The Leaders Group, Inc. has a supervisory system designed around a central OSJ. Through the centralized system, a home office principal reviews each transaction and oversees the compliance of each representative. Our compliance department reviews the activities of each rep several times a year. We issue compliance bulletins periodically, usually 10-11 times per year, to keep our reps apprised of current compliance concerns. Our compliance department is actively involved in industry organizations and is dedicated to being informed of current rules and regulations and how they apply to our business.

The rep-centered atmosphere and knowledge of the industry has made us the broker-dealer of choice for general agents and representatives for 20 years.

The Leaders Group, Inc. adheres to high standards of honesty and integrity in the course of business. We expect the best from our representatives in all they undertake. Our philosophy includes putting the customer's interests first, and doing the right thing. These principles are the cornerstone of compliance with federal and state laws, rules and regulations. In the absence of specific laws, rules or regulations, Financial Industry Regulatory Authority (FINRA) Rule 2010 should guide behavior:

A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade.

In concordance with our philosophy, The Leaders Group, Inc. has adopted the following Code of Ethics that we expect every representative to follow:

The Leaders Group Code of Ethics

As a securities industry professional and representative of The Leaders Group, Inc., I believe in, and shall abide by, the following principles:

- I shall strive to enhance the prestige of my profession by always representing myself and my firm with the highest integrity.

- I shall accurately and honestly present all information necessary to enable my clients to make informed decisions.
- I shall comply with all laws and regulations governing my business and professional activities.
- I shall respond promptly to the inquiries, service requests and concerns of my clients and shall always place their interests above my own interests.
- I shall respect the confidentiality of information regarding my client's personal and business information. I shall exercise the highest integrity in cooperating with all others who serve the needs of my clients.
- I shall maintain and increase my professional knowledge, skills and competence through continuing education.
- I shall allow my professional conduct to be reviewed by my clients and my company to ensure consistency with the above principles.

Registration Requirements

The list below shows some of the activities that require registration as a Registered Representative:

- Recommending variable products
- Cold-calling, telemarketing, or otherwise soliciting clients
- Accepting payment for variable sales
- Accepting orders or physical securities from a client
- Discussing variable product features
- Signing variable-related correspondence
- Giving variable product recommendations
- Obtaining suitability information to provide variable recommendations

An administrative staff person who restricts variable-related activities to the following is not required to register with a FINRA member firm, but should be fingerprinted through FINRA:

- Running and sending illustrations
- Assembling, scrubbing, and mailing completed applications
- Setting up and maintaining customer databases
- Handling records files
- Sending out prospectuses and sales literature
- Opening mail that could contain checks or complaints

Administrative Representatives

Representatives that do not have contact with customers are considered administrative representatives of The Leaders Group, Inc. These could include general agents, associate general agents, brokerage managers, case managers, insurance specialists, wholesale support, customer service, or similar positions. The issues they deal with require registration as a registered representative.

New Rep Registrations

Each representative must complete a registration package, including a form U4, and pay the required registration fees. This is submitted to the registration department. The Leaders Group, Inc. will only accept U4 yes answers to bankruptcy or tax lien (as long as the case is closed or settlements have been negotiated). Any other yes answers will be reviewed by the compliance department and the President. Criteria for an exception will include time frame of infraction, background of the situation, settlement or denial of claim in case of customer complaints, and the rep's and previous employer's explanation of events. In certain circumstances, special supervision of the rep will be required. This may include a restriction from any personal production. The complete FINRA history of each prospective representative is pulled from the FINRA CRD system. If a bankruptcy or tax lien exists, a credit report may be pulled and reviewed for any other financial issues and a special registration fee is required. The registration department will notify the representative when their registration has been approved. Contact information must be kept current with The Leaders Group, Inc. Any changes in information or disclosures should be submitted to the registration department immediately. Representatives must be aware that to maintain a Series 63 registration and not have to re-test in the future, they must retain registration in at least one state requiring the Series 63.

Purely administrative reps (no contact with retail customers) will be allowed to maintain a registration with FINRA but are not required to be registered in any states. If any customer contact is involved, they must also be registered in the applicable states. **Any personal production requires general agent approval and full compliance with retail procedures.**

Representatives will not be allowed to maintain their registration with The Leaders Group, Inc. if their employment with the general agent ends unless approval is given by the general agent to the registration department and approved by The Leaders Group.

The general agent must be appointed through The Leaders Group, Inc. with all carriers with whom they do variable business. Each carrier has guidelines for the appointment of associated general agents. Contact Betty Von Tersch at extension 109 for appointment information.

Performance Illustrations

Hypothetical performance illustrations may be used as part of a full disclosure sales presentation. However, projected rates of return must be reasonable and based on current market performance. Illustrations are not to use a return greater than 8% and must show performance based on 0% as well. All illustration software and presentations must meet NAIC requirements and only complete illustrations with all required disclosures are allowed. All communications must comply with [FINRA 2210](#)

E & O Coverage

E & O coverage with a minimum of \$1,000,000 per occurrence and \$2,000,000 aggregate is required of general agents and their representatives. It may be purchased through our

carrier, or you must provide proof of acceptable coverage. Please contact Betty Von Tersch for details.

Compliance Supervision

Because of the unique position of an administrative registered representative, the compliance and supervision model is significantly different. The general agent and the registered representatives do not deal with public customers of The Leaders Group, Inc., but instead deal with representatives and customers of the partner broker dealer. Because of this, the supervision needs are different than those of retail representatives. The GA is responsible for recordkeeping and compliance relating to the wholesale transactions with which his or her representatives assist. Each office must maintain the required files. Each representative, including the GA, must complete an Annual Compliance Questionnaire and return it to The Leaders Group, Inc. Each representative must read the periodic compliance bulletins issued by the compliance department with important updates on industry compliance issues and policy changes. All General Agents and representatives must complete all prescribed continuing education, including two (2) firm element continuing education courses annually as specified by the compliance officer. All representatives must also participate in either an online or locally scheduled compliance meeting annually. Late fees are charged to the general agent for registered representatives that do not finish the requirements on time.

Gifts and Entertainment

Representatives must adhere to FINRA Rule 3220 guidelines concerning influencing the employees of others and may not give gifts valued over \$100 annually to an individual. Advertising specialties are not included in this amount, but must be reasonable. To be considered entertainment, the representative must accompany clients to an event. Meal expenditures must be reasonable with the location. What is excessive in Des Moines may be reasonable in New York. All gifts and entertainment must be logged on the Gift and Entertainment Log and produced upon request (see appendix). When gifting other registered representatives, their broker-dealer guidelines must be complied with as well.

Suitability

While not directly responsible for suitability, all wholesale representatives must be familiar with suitability guidelines of the partner broker-dealers, the carriers they are working with and state suitability rules. All recommended products and strategies should be suitable for at least some customers.

Anti-Money Laundering

The Leaders Group is not directly responsible for the AML compliance for wholesale accounts, however, registered representatives should be on the lookout for potential red flags some include:

- The individual representing the customer exhibits unusual concern regarding compliance with government reporting requirements and the AML policies

- The individual representing the customer is reluctant to reveal any information concerning its business activities
- The information provided by the individual representing the customer identifies a source for funds that is false, misleading or substantially incorrect
- The customer has a questionable background or is the subject of news reports indicating possible criminal, civil or regulatory violations
- The customer exhibits a lack of concern regarding risks, commissions or other transaction costs
- The customer is from, or has accounts in, a country identified as a non-cooperative country

Should any red flags be identified, the case should be escalated to the Leaders Group compliance department as well as the carriers' compliance department and the writing broker-dealer branch manager.

Audits

General agent offices are now subject to periodic office audits by our outside consultants. The auditors will be reviewing cyber security measures, email accounts, personnel files, complaint files, and any retail files.

New Account Forms

Each case submitted must have a Leaders Group Wholesale Brokerage New Account Form submitted to the new accounts department. There is no requirement for the customer to review or sign the Brokerage New Account Form because they are not customers of The Leaders Group, Inc. These forms contain basic information such as carrier, the policy number, fixed or variable, general agent, soliciting rep, soliciting BD, owner and insured. These forms are primarily maintained for record-keeping and to facilitate any follow-up that may be required with the insurance carrier, General Agent, or soliciting broker-dealer. **If a representative does any personal production**, he must submit the retail new account form and all other required forms, with the original application, to the home office. This includes indexed annuities, variable annuities, variable life, variable life settlements, mutual funds and brokerage business. All personal production must be logged on the daily transaction blotter available at www.leadersgroup.net

Compensation

Overrides and commissions are paid weekly by The Leaders Group, Inc. Our General Agents serve as the administrative payee for wholesale representatives. Any changes to bank account information should be submitted to the commission department.

Products

A list of insurance carriers that The Leaders Group, Inc. has selling agreements with can be obtained through our marketing department. Selling agreements and appointments must be in place prior to business being submitted to a carrier. Our product manager can

obtain selling agreements for new products or carriers upon Leaders Group due diligence approval. Specific policies and procedures may apply to different products, such as life settlements. (see appendixes for life settlement procedures)

Communications

Securities related email must be archived through Global Relay, our SEC compliant vendor. The organization must set up for hosting or journaling of email through Global Relay for all registered personnel. Any non-public personal information such as policy numbers, social security numbers, or driver's license numbers should not be included in an email unless the email is encrypted. Please contact The Leaders Group for additional information on encryption options. Securities-related instant messaging and text messaging are prohibited, as they cannot be retained or reviewed as required under FINRA and SEC rules.

Business cards for all securities registered people should contain verbiage that securities are offered through The Leaders Group, Inc., Member FINRA/SIPC, and our address and phone number.

All communications going to more than 25 people in a 30-day period must be approved by the compliance department. Please email to compliance@leadersgroup.net for approval. Broker use only materials must be clearly marked as such. Materials that will be used for customer use must be approved by the partner broker dealers as well.

Termination of Registration

Registration with The Leaders Group, Inc. may be terminated in the instance of any rule or policy violations. Fees may be charged for the failure to comply with company policies or requests.

APPENDIX

Life Settlement Policies and Procedures for General Agents

The Leaders Group, Inc. Registered Representatives that are General Agents may refer financial advisors to approved life settlement brokers. Typically, the General Agent will not be involved in the process other than as a facilitator. Occasionally, the general agent's office may request the in-force policy illustrations or medical records.

The Leaders Group, Inc. requires a wholesale new account form listing the soliciting agent and broker dealer, the owner and insured's names, and social security numbers, the insurance policy number and carrier, and the funding company. We also require copies of a the settlement documents.

Life Settlement Broker Policies and Procedures

The Leaders Group, Inc. Registered Representatives may work in a capacity of a life settlement broker. Typically, the broker or brokerage firm will work with a financial advisor, who will act as the contact person with the policy owner, and a funding company, who will actually purchase the policy. General agents may be involved that refer the financial advisor to the settlement broker. Providers may be involved in analyzing the policy and making offers on behalf of the funding companies.

The broker will typically be responsible for generating the application and the medical releases the policy owner signs. The financial advisor then gets the policy owner's signatures and transmits the paperwork back to the broker. The broker will obtain the medical records and an in-force illustration on the policy. These will be packaged and submitted to multiple funding companies.

The broker will submit the highest bid to the advisor for the policy owner's acceptance or rejection. Closing documents are prepared by either the funding company, the provider or the broker. Closing documents are executed and change of ownership and beneficiary forms are sent to the life insurance company. Once the change forms have been processed and confirmed, the funds will be released to the policy owner and the intermediaries.

Applications and closing documents must contain disclosures explaining what a life settlement is; the alternatives available; that the payment may be subject to taxes; that the settlement may change their eligibility for public assistance benefits; when and how the payment will be made; and that they no longer have any rights to or benefits from the policy.

The Leaders Group, Inc. requires a life settlement disclosure form, and all settlement documents.

Compliance Requirements

Files to be maintained in each office (even if empty):

- Correspondence – all communications, electronic or hard copy, concerning securities business
- Customer Complaints – any potential or actual complaints

Files to be maintained by each registered representative

- Personnel file containing
 - Copy of FINRA Form U4
 - Continuing education records
- Any Personal production Client files
- A log of business gifts given and received (form available at www.leadersgroup.net)

Case files should contain:

- Leaders Group Wholesale/Brokerage New Account Form
- Application
- Illustration
- Policy Receipt if applicable
- Copy of check
- Any documents signed by customer

Compliance responsibilities:

- Adhere to all Leaders Group policies and procedures
- Follow all FINRA, SEC and state regulations
- Read Compliance Manual, sign and return acknowledgment
- Report any customer complaints or regulatory inquiries to The Leaders Group, Inc. immediately
- Check email at least weekly for Compliance notices
- Have “Securities offered through The Leaders Group, Inc. Member FINRA/SIPC” on your business cards, email signature and any other communications you use
- Maintain current contact and employment information with The Leaders Group, Inc.
- Complete Regulatory and Firm Element Continuing Education as required
- Complete Annual Compliance Meeting requirements
- Complete Annual Compliance Questionnaire
- Read periodic Compliance Bulletins
- Respond to any requests from The Leaders Group, Inc. promptly
- Internet access to our Compliance Manual and forms <http://www.leadersgroup.net>
- Get approval of website and any marketing materials prior to use or activation
- Make sure any materials used fit FINRA guidelines: Cannot make false, misleading, exaggerated or unwarranted statements; may not predict or project performance except with carrier approved illustrations; No testimonials; get it approved even if for broker use only.
- Remember that business gifts cannot exceed \$100 per year per individual
- Be aware of state privacy laws as well as federal – basically: Do not send any non-public personal information in an unsecured email.
- Be aware of AML considerations: report any red flags such as transactions with no consideration of cost or performance. If you see something, say something.
- Update employment or residential contact information within 30 days of any changes.