



Securities Act of 1934

- ✓ Excessive trading (churning)
- ✓ Making unsuitable recommendations
- ✓ Executing transactions without proper authority
- ✓ Failing to segregate client assets from firm assets
- ✓ Executing transactions at unfair price
- ✓ Failing to deliver a prospectus during new issue offering
- ✓ Charging unreasonable fees
- ✓ Offering a security with no intention of trading it (backing away)
- ✓ Engaging in any form of market manipulation
- ✓ Guaranteeing investors against loss
- ✓ Failing to disclose conflicts of interest
- ✓ Failure to respond to customer complaints
- ✓ Borrowing from or lending to client
- ✓ Exceptions
 - Client in business of lending money
 - Offering a loan through a margin account
 - Loans between firm associates
 - Sharing accounts with customer:
- ✓ Sharing accounts with customer
 - Agents may share if:
 - Written B/D permission
 - Written agreement with client
 - All other persons are prohibited.
- ✓ Splitting commissions
 - Agents may split commissions with reps of same firm
- ✓ Performing securities transactions outside of firm
 - Applies to agents and IARs
 - Considered ("selling away")
 - May avoid selling away if:
 - Written disclosure to firm
 - Written approval from firm if being paid



Other ethical considerations

- ✓ Testimonials
 - Broker-dealers and agents may use
 - Must disclose if compensated > \$100
 - Investment advisers and IAR:
 - State rules: testimonials are prohibited
 - Federal rules: testimonials are regulated
 - Proper disclosures made
 - Written agreement with promoter
- ✓ Must disclose all material facts
 - During offers, recommendations, presentations, etc.
 - Material fact = any fact that may influence an investment decision



Individual accounts

- ✓ Owned by one individual
- ✓ Subject to probate if not TOD



Transfer on Death (TOD):

- ✓ Transfers assets to listed beneficiaries upon death
- ✓ TOD accounts avoid probate



Joint with Rights of Survivorship (JROS):

- ✓ Account owned by one or more persons
- ✓ Deceased owner's assets become property of surviving owner
- ✓ Not subject to probate if surviving owner exists
- ✓ May add TOD (applies if no surviving owners left)



Joint Tenants in Common (TIC):

- ✓ Account owned by one or more persons
- ✓ Pre-determined ownership between owners
- ✓ Deceased owner's assets pass to estate (subject to probate)



Fiduciary accounts

- ✓ Account manager must put owner's interests before their own
- ✓ Guardianship
 - Court-appointed guardian over minor/incapacitated
- ✓ Custodial
 - Minor's assets managed by adult custodian
 - Contributions are irrevocable gifts to minor
 - Must be turned over to minor at:
 - UGMA = age of majority (18 or 21 depending on state)
 - UTMA = state-defined age (up to age 25)
- Discretionary
 - Account Managed for client by financial professional
 - Requires Power of Attorney (POA) / trading authority
 - Limited POA = trading only
 - Full POA = trading + withdrawal
 - Durable POA = survives incapacitation
 - Non-durable POA = ceases upon incapacitation
 - Considered discretionary trade if representative chooses:
 - Asset (what security)
 - Amount (how much)
 - Action (buy or sell)