

[SEC, May 09, 1996]

BUSINESS CONDUCT RULES

RSA Rule 3-2 *Ethical Standards Rules* - A broker or dealer, or associated person or salesman of a broker or dealer, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade.

RSA Rule 19-8 *Delivery of Customer's Securities* - Except as herein otherwise provided, a broker, or dealer shall on demand deliver to its customers the securities to which they are entitled unless prevented by circumstances beyond its control. (Amends Rule B.15 of the 1938 Rules)

RSA Rule 19-11 *Suitability Rule* - (a) In recommending to a customer the purchase, sale or exchange of any security, a broker or dealer, or an associated person or salesman of a broker or dealer, shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

(b) Prior to the execution of a transaction recommended to a non-institutional customer, reasonable efforts shall be made to obtain information concerning:

1. the customer's financial status;
2. the customer's tax status;
3. the customer's investment objectives; and
4. such other information used or considered to be reasonable by such broker or dealer, or associated person or salesman of the broker or dealer, in making recommendations to the customer.

RSA Rule 19-12- *Influencing or Rewarding Employees of Others* - (a) No broker or dealer, or associated person or salesman of a broker or dealer, shall, directly or indirectly, give or permit to be given anything of value, including gratuities, in excess of P10,000 per individual per year to any person, principal, proprietor, employee, agent or representative of another person where such payment or gratuity is in relation to the business of the employer of the recipient of the payment or gratuity. A gift of any kind is considered a gratuity.

(b) A separate record of all payments or gratuities in any amount known to the broker or dealer shall be retained by the broker or dealer for the period of three years.

RSA Rule 19-13 *Charges for Services Performed* - Charges by a broker or dealer, if

any, for services performed, including miscellaneous services such as collection of monies due for principal, dividends, or interest; exchange or transfer of securities; appraisals, safekeeping or custody of securities, and other services, shall be reasonable and not unfairly discriminatory between customers.

RSA Rule 19-14 Supervision - (a) Every broker or dealer shall establish and maintain a system to supervise the activities of all persons employed by it who are directly or indirectly related to the conduct of its securities business. The supervisory system shall be reasonably designed to achieve compliance with applicable securities laws and regulations and with the rules of the self regulatory organizations of which the firm is a member. Final responsibility for proper supervision shall rest with the firm. A firm's supervisory system shall include at least the following:

1. the establishment and maintenance of written supervisory procedures;
2. the designation of one or more officials with the authority and responsibility to carry out the supervision of each type of business in which it engages;
3. the titles, registration status and locations of the required supervisory personnel and the responsibilities of each supervisory person as these relate to the types of business engaged in;
4. written documentation of reasonable efforts to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned supervisory responsibilities; and
5. written documentation of the participation of each person engaged in securities transactions, either collectively or individually, no less than annually, in an interview or meeting conducted by supervisory persons designated by the firm at which compliance matters relevant to the activities of those persons are discussed and of prompt notification in writing to each such person of new or modified compliance obligations.

(b) Each broker or dealer firm shall notify the Commission, or the self regulatory organizations of which it is a member, of the names of the persons assigned supervisory responsibility and who have authority to recommend to senior management of the firm appropriate action reasonably designed to achieve compliance with appropriate securities laws and regulations and with the rules of the self-regulatory organizations of which it is a member.

RSA Rule 21-1. Trading Limited to Listed Securities Registered under the RSA - No member, broker or dealer shall effect any transaction in any security (other than an exempted security) on the floor of a securities exchange, unless registration under the Revised Securities Act and listing on such securities exchange are effective as to such security. (Amends Rule A. 17 of the 1938 Rules).

RSA Rule 22 (a)-6 Fictitious Transactions - A securities exchange shall impose no penalty less than suspension or expulsion for members who have made fictitious sales or fictitious bids or offers on the floor of the exchange. (Renumbers Rule A. 13 of the 1938 Rules).

RSA Rule 22 (a)-7 Wash Sates - A member of a securities exchange or a partner or representative for a member of such exchange who gives or executes an order for the purchase or sale of securities which would involve no change of ownership, shall be immediately expelled by the exchange. (Renumbers Rule A.14 of the 1938 Rules).

RSA Rule 22 (a)-8 Suspension of Trading by the Commission - The Commission reserves the right pursuant to its authority under the Revised Securities Act to suspend trading in any security on its own motion. No broker or dealer, or associated person or salesman of a broker or dealer, shall, directly or indirectly, effect any transaction in a security as to which a suspension is currently in effect.

RSA Rule 22(a)-10 -Front Running Rule - (a) No broker or dealer shall (1) purchase or sell a security for his own account, or (2) if such broker or dealer is a corporation or partnership, purchase or sell security for its own account or for any account in which an officer, director, partner, or employee thereof has a direct or indirect financial interest, under the following conditions:

(1) the broker or dealer holds an unexecuted market or limit order to buy or sell the same security for a customer; and

(2) the broker or dealer knows that the price at which the transaction will be executed for his or its account, or for the account of any officer, director, partner or employee is equal to or better than the price obtainable for the customer's order.

(b) This rule shall not apply (1) to any purchase or sale of any security in an amount less than the unit of trading made by an odd-lot dealer on a securities exchange to offset odd-lot orders of customers or (2) to any purchase or sale of any security upon terms for delivery other than those specified in such unexecuted market or limited price order. (Amends Rule A. 30 of the 1938 Rules)

RSA Rule 26 (a) (4) -1 Advertisements and Communications with the Public - (a) All communications by brokers or dealers, or associated persons or salesmen of brokers or dealers, with the public shall be based on principles of fair dealing and good faith and should provide a sound basis for evaluating the facts in regard to any particular security or securities or type of security, industry discussed, or service offered. No material fact or qualification may be omitted if the omission, in the light of the context of the material presented, would cause the advertising or sales literature to be misleading.

(b) Exaggerated, unwarranted or misleading statements or claims are prohibited in all public communications of brokers or dealers, or of communications of associated persons or salesman of brokers or dealers. In preparing such literature, it must be borne in mind by such persons that inherent in investment are the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield, and no such person shall, directly or indirectly, publish, circulate or distribute any public communication that person knows, or had reason to know, contains any untrue statement of a material fact or is otherwise false or misleading.

(c) Communications with the public must not contain promises of specific results,

exaggerated or unwarranted claims or unwarranted superlatives, opinions for which there is no reasonable basis, or forecasts of future events which are unwarranted, or which are not clearly labelled as forecasts.

(d) In judging whether a communication or a particular element of a communication may be misleading, several factors should be considered, including but not limited to:

(1) the overall context in which the statement or statements are made. A statement made in one context may be misleading even though such a statement could be perfectly appropriate in another context. An essential test in this regard is the balance of treatment of risks and potential benefits.

(2) the audience to which the communication is directed. Different levels of explanation or detail may be necessary depending on the audience to which a communication is directed and the ability of the broker or dealer given the nature of the media used, to restrict the audience appropriately. If the statements made in a communication would be applicable only to a limited audience, or if additional information might be necessary for other audiences, it should be kept in mind that it is not always possible to restrict the readership of a particular communication.

(3) the overall clarity of the communication. A statement or disclosure made in an unclear manner obviously can result in a lack of understanding of the statement, or in a serious misunderstanding. A complex or overly technical explanation may be worse than too little information. Likewise material disclosure relegated to legends or footnotes realistically may not enhance the reader's understanding of the communication.

RSA Rule 26 (a) (4) -2 *Publication of Transactions and Quotations* - No broker or dealer, or associated person or salesman of a broker or dealer, shall publish or circulate, or cause to be published or circulated, any notice, circular, advertisement, newspaper article, investment service, or communication of any kind which purports to report any transaction as a purchase or sale of any security unless such person believes that such transaction was a bona fide purchase or sale of such security; or which purports to quote the bid price or asked price for any security, unless such person believes that such quotation represents a bona fide bid for, or offer of, such security.

RSA Rule 26 (a) (4) - 3 *Payment to influence Market Prices* - No broker or dealer shall, directly or indirectly, give, permit to be given, or offer to give, anything of value to any person for the purpose of influencing or rewarding the action of such person in connection with the publication or circulation in any newspaper, investment service, or similar publication, of any matter which has, or is intended to have, an effect upon the market price of any security, provided that this rule shall not be construed to apply to matter which is clearly distinguishable as paid advertising.

RSA Rule 27 (a) -1 *Short Sales* - (a) Definition of Short Sale - The term "short sale" shall mean any sale of a security which the seller does not own or any sale