

Effecting Trades & Subsequent Investments

General Instructions

Use this document as a guideline when effecting trades and subsequent investments in a brokerage or directly held account in mutual funds, variable annuities, 529s, municipal bonds, equities, fixed income and UITs. **Note:** For more detailed information about locating, filling out, and uploading the forms mentioned throughout this reference guide, please consult the [Forms Library Overview Reference Sheet](#). This document is intended to be used as an aid in processing business, additional details and guidance can be found in the Field Compliance Manual, or the Regulation Best Interest New Business & Subsequent Transaction Reference Sheet.

File Documentation:

- Document all required forms and client files regarding the transaction and make certain that all appropriate documents (which may include, but are not limited to, **Transaction Detail Form (TDF)**, RightBRIDGE Product Profiler Report, **Product Profile Documentation Form**, **Share Class Disclosure Form**, etc.) are signed by your agency principal and uploaded to A360 prior to effecting the trade
- Include details of recommendations, discussion(s) with client, appropriateness of the trade and the originating source of funds
- Refer to the **TDF Walkthrough Replacement job aid** and/or **TDF Walkthrough Non Replacement Job Aid** to ensure completed TDF meets good order requirements
- Review the [Regulation Best Interest New Business & Subsequent Transaction Reference Sheet](#) for details when reps must provide Form CRS, Reg BI Disclosure Brochure, Capacity Supplement to the Reg BI Disclosure, RightBRIDGE Product Profiler Report, Transaction Detail Form, and CAT Form
- Review the [Regulation Best Interest Client File Documentation Reference Sheet](#) to ensure minimum requirements for client file documentation are met and for information on how to store files electronically on A360

Profile:

- Make certain the client's profile is complete, current, and updated on firm systems prior to entering the trade, using the "Edit Suitability/Business Line" link under Profile in A360
 - Include fields of investable assets, annual & special expenses and assets held away
 - Investment is in line with the client's needs, stated investment objective and time horizon
 - Refer to MSA for percentage of equity allowed for each investment objective or the **WMS Risk Reference Methodology Reference Guide** which has been adopted by brokerage, direct and advisory accounts with the implementation of A360
 - Client maintains sufficient liquidity after this purchase in relation to their annual and/or special expenses

Solicitation:

- Accurately document whether the transaction is solicited
- A transaction is considered solicited when:
 - The registered representative brings a security to the attention of the client
 - The registered representative recommends the liquidation of an existing position
 - The registered representative recommends holding an existing position
 - The client asks as to whether a security is an appropriate purchase or liquidation. The registered representative researches and recommends to the client the purchase or liquidation of that security

- The registered representative recommends which position to liquidate when a client needs to raise cash and asks for assistance in determining which position(s) to liquidate

Checks:

- The TDF is required if the source of funds is from a replacement source within the past 13 months
- All client funds must be immediately deposited via Mobile Check Deposit or sent overnight to the OSJ
- Checks, whether copies or original, along with the CSR must be logged into the Agency Check Log via Supervisory Central

Replacements – Subsequent Deposits:

- If a replacement, the Transaction Detail Form must be completed in entirety with detailed documentation of the recommendation and any alternative products considered. The TDF must be reviewed and approved/signed by a registered principal and uploaded to A360
- If a replacement via rollover from an employer sponsored plan, in addition to the TDF requirement, the RightBRIDGE Product Profiler Report must be kept in the client file
 - Replacement is defined as: any purchase of UITs, mutual funds, 529 plans, annuities, or variable life insurance where the client previously liquidated any other qualified retirement plan, including 401k, cash balance pension plan, and any other employer sponsored plan rollover, UITs, mutual funds, 529 plans, annuities, or variable life insurance

Non-Replacements – Subsequent Deposits:

- Transaction Detail Form not required for non replacement source of funds, however detailed client files are required for all recommended transactions
- Document date of disclosures delivered to client
- Document the rationale that the transaction/product recommendation is in the client's best interest
 - Detail how the recommendation fits into the client's overall financial strategy
 - Document any alternative products or solutions that were reviewed or recommended with the client including any less complex or less costly products considered
 - Should have at least one alternative, why it was recommended, and why it was not selected
- Be able to demonstrate what analysis was performed on the various options that were explored (e.g., sales tools, reports, illustrations, Excel math, eMoney, wholesaler conversations, or sales manager/investment specialist conversations, etc.)

Notes:

- To avoid defaulted compensation, make certain you are properly licensed and registered in the client's state of residence prior to placing the trade
- A principal may contact you for additional information regarding the transaction(s)
- As a best practice and to assist trade review, utilize the Messages & Notes section of A360 (Practice360 > CRM Activities > Actions – I want to > Create a New Note) to document investment rationale and source of funds for non replacements
- All supporting documents for subsequent deposit trades should be in the client files and may be uploaded to A360 as a non processing document
- Replacements of existing mutual funds & UITs within a brokerage account do not require a TDF, but will generate a Replacement Letter, which is mailed to the account holder. Investment rationale should be maintained in the client file, and a principal may request the rationale to determine suitability of the transaction

Mutual Funds

Share Class:

Make certain the fund share class is appropriate for the client's time horizon

○ **A Shares:**

- **Breakpoint Worksheet** is complete and in the client file
- Trade is placed (manually, if applicable) at the correct breakpoint, including all household directly held/brokerage eligible assets
 - Brokerage: Household accounts may need to be linked manually using the **Letter of Intent -Breakpoint Pricing form** (Note: this includes spousal accounts at the same address etc.) which must be submitted to the Home Office via A360 for processing prior to trade entry. Ensure eligible accounts are linked by viewing the account's Aggregated Assets tab under "Trade" in Wealthscape and confirm accuracy prior to order entry. (Note: Many fund families cannot be systematically linked, and breakpoints must be manually entered at order entry)
 - Directly held: Fund Family must be notified of assets held in brokerage or under another Broker/Dealer
- Verify the client is eligible for the discount prior to placing the trade
Reminder: it is against Firm policy to give a discount to a client who is not eligible
- If the client will be making subsequent purchases within a short timeframe, generally 13 months, including periodic payments, they may benefit from a Letter of Intent prior to placing the trade

○ **C Shares:**

- Make certain the purchase is within the parameters of the [share class policy](#) including but not limited to:
 - the account is not an employer-sponsored retirement plan
 - the purchase cannot be placed at or above the \$500,000 breakpoint
 - the purchase will not cause the household to meet or exceed \$500,000 in total C-share holdings
 - the account has a short-term time horizon
 - If not short term and is suitable; complete the **Share Class Disclosure Form** and [FINRA Fund Analyzer](#) with documents uploaded to A360
 - Note, regardless of time horizon, effective March 2022, Columbia and Invesco C shares are not available in brokerage or direct IRA accounts when an R share is available for the fund

Retirement Shares:

- If trade is placed in a qualified account and the fund allows for it, make certain that the client is purchasing the most cost-effective share class available
- If retirement shares are available, these are generally more suitable for qualified accounts

Fund Family Diversification:

- If purchase will result in the client owning multiple fund families
 - Document the discussion with the client regarding the advantages of investing in fewer fund families to achieve breakpoints, rationale, and benefit for spreading amongst fund families
- If purchase is in a fund(s) in the same investment style held in another fund family
 - Document the discussion with the client regarding the advantages of investing in the existing fund to achieve breakpoints, rationale, and benefit for spreading amongst fund families

NAV Eligibility:

- If shares were sold recently from this fund family or are held in an employee-related account, the purchase may be entitled to NAV
 - Review the fund's prospectus for the specific requirements for their NAV policy and reinstatement privilege

Reminder: it is against Firm policy to enter a trade at NAV unless the client is entitled to NAV through ROA, LOI or reinstatement privilege

Rights of Reinstatement (as defined in the fund's prospectus):

- If repurchasing class A shares eligible for rights of reinstatement, ensure that the trade is placed at NAV
- If repurchasing class C shares eligible for rights of reinstatement, ensure that the trade is coded as a repurchase

Muni Bond Funds:

- If purchase is in a municipal bond fund for a state outside the client's residence state, is client aware of the possible loss of a tax benefit by not buying a fund for their state of residence
- If purchase is in a qualified account, is client made aware of the possible loss of a tax benefit by purchasing in a tax-qualified account
 - In either case, document the rationale and benefit the client may attain by purchasing this product

529 Plans, subsequent investments

- Make certain to take into consideration the age of the beneficiary and the expected time frame of when these funds will be used, as that may affect the most appropriate share class
 - Make certain that the client household accounts are aggregated for rights of accumulation as defined by the fund's prospectus
- Out of State plan: If the client is investing into a plan issued outside of their resident state
 - Make certain to have documented the discussion with the client regarding the benefits of investing in a plan that is offered through their state if available, as well as the rationale and benefits for investing in an out of state plan

Variable Annuities – Subsequent Deposits

- Registered Representatives must document all required forms and client files regarding the recommendations, details of the discussion(s) with the client, the appropriateness of the deposit and the originating source of funds
- Due to the complex nature of variable annuity products, MMLIS deems any interaction with a client regarding a subsequent annuity deposit as a Recommended/Solicited trade, regardless of who makes initial contact
- Suitability review and approval by a registered principal is required prior to funds being sent to the annuity carrier, or transfer paperwork submitted
 - Recommended Replacements require a TDF detailing rationale and must be signed by the client, Registered Representative, and reviewed for suitability and signed by Agency registered principal
 - RightBRIDGE Profiler is also required for recommended employer sponsored plan rollovers and must be kept in client file
 - Recommended Non Replacement/Non Rollover require client file documentation with details of the transaction. A Supervisory Controls Group (SCG) Principal may contact you for additional information

Municipal Bonds

Bond Purchases:

- A Registered Representative must disclose to the client, at or prior to the sale, all material facts regarding the security that are reasonably accessible to the market
 - This information should include a complete description of the security, any features that would be considered significant, and any facts that are material when considering the risks of the investment
- Purchase of a tax-free municipal bond for a state outside the client's residence state, make certain the client is aware of the possible loss of a tax benefit by not buying a fund for their state of residence
- Purchase in a qualified account, make certain the client is aware of the possible loss of a tax benefit by purchasing this in a tax-qualified account. In either case, document the benefit that the client may attain by purchasing this product

Equities & Fixed Income

Equities Solicitation: Series 7 or 62

- Registered representatives can solicit trades only for eligible brokerage accounts.
 - Qualified accounts such as 401(k), money purchase pension, profit sharing plans and other employee benefit plan accounts are generally not eligible for solicitations, as recommendations may subject the registered representatives to fiduciary requirements

Equities Research Requirements:

- Registered Representatives must subscribe to an approved research vendor
- Each solicitation purchase must have a buy or hold recommendation by the approved research vendor at the time of the recommendation
 - Each solicited stock purchase, the registered representative is required to print a copy of the vendor research report used as the basis for the solicitation, and must retain the report in a centralized research file or in the client file, and
 - Agency supervision should maintain, or make certain the registered representative maintains a file
 - Sell order solicitations, research materials are not required, but the client file must contain detailed documentation for the rationale supporting the trade
 - Additional information found in the [Equity Solicitation and Trading Requirements reference guide](#)

Preferred Stock Solicitation: Series 7 or 62

- Solicitation of preferred stocks in retail brokerage accounts and preferred stock transactions in WMS accounts must meet **either** the requirements described above for the issuer's common stock **or** the requirements described below for the issuer's fixed income securities
Representatives may utilize the Preferred Offerings Trading List on FieldNet to determine the ratings of the issuer's preferred stock

Fixed Income: Series 7 or 62

- Each solicited bond purchase may only be of bonds rated Investment Grade (e.g., BBB, BBB- or better, depending upon the rating agency) by S&P, Moody's or Fitch
- For each solicited bond, registered representatives are required to maintain all related documentation in a centralized research file, or in the client file
- Agency supervision should maintain, or make certain the registered representative maintain, such a file

Exchange Traded Funds (ETFs) and closed end funds: Series 7 or 62

- The vendor research requirements are not required for the solicitation of ETFs or Closed End Funds. However, as with any recommended transaction, any solicitation involving these securities must be suitable for the client and adhere to all Firm policies. Additionally, the client file must contain appropriate documentation to support the transaction

Prohibited Transactions:

- Registered representatives are prohibited from soliciting the following transactions:
 - Restricted or control securities that are being sold under Rule 144
 - Designated securities (penny stocks)
 - Unapproved products
 - OTC transactions in which the bid price is less than \$50
 - Municipal bond new issues
 - Reference [Bulletin 2022-09](#) for additional Product information for Brokerage accounts

Unit Investment Trusts

UITs & Liquidating prior to maturity:

- UITs employ a "buy-and-hold" strategy that is generally fixed throughout the life of the UIT
 - Short-term trading of UITs may be improper and raises suitability concerns based on the nature of UITs, their structure, and upfront costs they can be very expensive if not held to maturity
- Registered Representatives are responsible for explaining the impact of sales charges and maturity dates to clients at the time of sale
- If a client wants to liquidate a UIT more than 100 days prior to maturity, discuss the impact of sales charges with the client and document the discussion in the client file
 - If the UIT is sold prior to maturity, disclose how long prior to maturity it was sold and why
 - Regulators have placed special concern on any UIT sold prior to maturity by at least 100 days; Registered representatives must make certain this is addressed properly with the client before the trades and documented appropriately; Additionally,
 - Is there a pattern of switching from UITs to UITs prior to maturity?
 - Is there a pattern of switching from UITs to mutual funds or other products such as: ETFs, variable annuities, equities; then back to UITs again?
 - Consider the long-term client impact of sales charges and fees with investing in UITs