

## ANNUAL DISCLOSURE STATEMENT

### Anti-Money Laundering

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. This notice answers some questions about your firm's Customer Identification Program (CIP).

*What types of information will I need to provide?* When you open an account, *your firm* is required to collect information such as the following from you: your name, address, date of birth, identification number: (a) US Citizen: taxpayer identification number (social security number or employee identification number), or (b) Non-US Citizen: taxpayer identification number, passport number and country of issuance, alien identification card number, or government-issued identification showing nationality, residence, and a photograph of you. You may also need to show your driver's license or other identifying documents. A corporation, partnership, trust or other legal entity may need to provide other information such as its principal place of business, local office, employer identification number, certified articles of incorporation, government issued business license, a partnership agreement or a trust agreement. In addition, The United States Department of the Treasury, the United States Securities and Exchange Commission, and the Financial Industry Regulatory Authority ("FINRA") currently require you to provide additional information, such as net worth, annual income, occupation, employment information, investment experience and objectives, and risk tolerance.

*What happens if I don't provide the information requested or my identity can't be verified?* Your firm may not be able to open an account or process transactions for you. If your firm has already opened an account for you, it may be closed.

### Privacy Policy

Apex Clearing Corporation ("Apex") carries your account as a clearing broker by arrangement with your broker-dealer or registered investment advisor as Apex's introducing client. At Apex, we understand that privacy is an important issue for customers of our introducing firms. It is our policy to respect the privacy of all accounts that we maintain as a clearing broker and to protect the security and confidentiality of non-public personal information relating to those accounts. Please note that this policy generally applies to former customers of Apex as well as current customers.

*Personal Information Collected.* In order to service your account as a clearing broker, information is provided to Apex by your introducing firm who collects information from you in order to provide the financial services that you have requested. The information collected by your introducing firm and provided to Apex or otherwise obtained by Apex may come from the following sources and is not limited to:

- Information included in your applications or forms, such as your name, address, telephone number, social security number, occupation, and income;
- Information relating to your transactions, including account balances, positions, and activity;
- Information which may be received from consumer reporting agencies, such as credit bureau reports;
- information relating to your creditworthiness;
- Information which may be received from other sources with your consent or with the consent of

your introducing firm.

In addition to servicing your account, Apex may make use of your personal information for analysis purposes, for example, to draw conclusions, detect patterns or determine preferences.

*Sharing of Non-public Personal Information.* Apex does not disclose non-public personal information relating to current or former customers of introducing firms to any third parties, except as required or permitted by law, including but not limited to any obligations of Apex under the USA PATRIOT Act, and in order to facilitate the clearing of customer transactions in the ordinary course of business.

Apex has multiple affiliates and relationships with third party companies. Examples of these companies include financial and non-financial companies that perform services such as data processing and companies that perform securities executions on your behalf. We may share information among our affiliates and third parties, as permitted by law, in order to better service your financial needs and to pursue legitimate business interests, including to carry out, monitor and analyze our business, systems and operations.

*Security.* Apex strives to ensure that our systems are secure and that they meet industry standards. We seek to protect non-public personal information that is provided to Apex by your introducing firm or otherwise obtained by Apex by implementing physical and electronic safeguards. Where we believe appropriate, we employ firewalls, encryption technology, user authentication systems (i.e. passwords and personal identification numbers) and access control mechanisms to control access to systems and data. Apex endeavors to ensure that third party service providers who may have access to non-public personal information are following appropriate standards of security and confidentiality. Further, we instruct our associated persons to use strict standards of care in handling the personal financial information of customers. As a general policy our staff will not discuss or disclose information regarding an account except; 1) with authorized personnel of your introducing firm, 2) as required by law or pursuant to regulatory request, or 3) as authorized by Apex to a third party or affiliate providing services to your account or pursuing Apex's legitimate business interests.

*Access to Your Information.* You may access your account information through a variety of media offered by your introducing firm and Apex (i.e. statements or online services). Please contact your introducing firm if you require any additional information.

Apex may use "cookies" in order to provide better service, to facilitate its customers' use of the website, to track usage of the website, and to address security hazards. A cookie is a small piece of information that a website stores on a personal computer, and which it can later retrieve.

*Changes to Apex's Privacy Policy.* Apex reserves the right to make changes to this policy.

*How to Get in Touch with Apex about this Privacy Policy.* For reference, this Privacy Policy is available on our website at [www.apexclearing.com](http://www.apexclearing.com). For more information relating to Apex's Privacy Policy or to limit our sharing of your personal information, please contact:

Apex Clearing Corporation  
Attn: Compliance Department  
350 N. St. Paul Street, Suite 1300  
Dallas, Texas 75201  
214-765-1055

## **Margin Disclosure Statement: FINRA Rule 2264**

We are furnishing this document to provide you with basic facts about purchasing securities on margin, and to alert you to the risks involved with trading securities in a margin account. Before trading in a margin account, you should carefully review the margin agreement provided by your broker. Consult your broker and/or registered investment advisor regarding any questions or concerns you may have with your margin accounts.

When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from your brokerage firm. If you choose to borrow funds from your firm, you will open a margin account with the firm. The securities purchased are the firm's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan, and as a result, the firm can take action, such as issue a margin call and/or sell securities in your account, in order to maintain the required equity in the account.

It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

*You can lose more funds than you deposit in the margin account.* A decline in the value of securities that are purchased on margin may require you to provide additional funds to the firm that has made the loan to avoid the forced sale of those securities or other securities in your account.

*The firm can force the sale of securities in your account.* If the equity in your account falls below the maintenance margin requirements under the law, or the firm's higher "house" requirements, the firm can sell the securities in your account to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.

*The firm can sell your securities without contacting you.* Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the firm cannot liquidate securities in their accounts to meet the call unless the firm has contacted them first. This is not the case. Most firms will attempt to notify their customers of margin calls, but they are not required to do so. However, even if a firm has contacted a customer and provided a specific date by which the customer can meet a margin call, the firm can still take necessary steps to protect its financial interest, including immediately selling the securities without notice to the customer.

*You are not entitled to choose which security in your margin account is liquidated or sold to meet a margin call.* Because the securities are collateral for the margin loan, the firm has the right to decide which security to sell in order to protect its interests.

*The firm can increase its "house" maintenance margin requirement at any time and is not required to provide you advance written notice. These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause the member to liquidate or sell securities in your account.*

*You are not entitled to an extension of time on a margin call. While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.*

*The IRS requires Broker Dealers to treat dividend payments on loaned securities positions as a "substitute payment" in lieu of a dividend. A substitute payment is not, a "qualified dividend" and is not taxed as ordinary income.*

*Industry regulations may limit, in whole or in part, your ability to exercise voting rights of securities that have been lent or pledged to others. You may receive proxy materials indicating voting rights for a fewer number of shares than are in your account, or you may not receive any proxy materials.*

### **Day-Trading Risk Disclosure Statement: FINRA Rule 2270**

You should consider the following points before engaging in a day-trading strategy. For purpose of this notice, a "day trading strategy" means an overall trading strategy characterized by the regular transmission by a customer of intra-day orders to effect both purchase and sale transactions in the same security or securities.

*Day trading can be extremely risky.* Day trading, generally, is not appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. You should be prepared to lose all of the funds that you use for day trading. In particular, you should not fund day-trading activities with retirement savings, student loans, second mortgages, emergency funds, funds set aside for purposes such as education or home ownership or funds required to meet your living expenses. Further, certain evidence indicates that an investment of less than \$50,000 will significantly impair the ability of a day trader to make a profit. Of course, an investment of \$50,000 or more in no way guarantees success.

*Be cautious of claims of large profits from day trading.* You should be wary of advertisements or other statements that emphasize the potential for large profits as a result of day trading. Day trading can lead to large and immediate financial losses.

*Day trading requires knowledge of securities markets.* Day trading requires in-depth knowledge of the securities markets and trading techniques and strategies. In attempting to profit through day trading, you must compete with professional, licensed traders employed by securities firms. You should have appropriate experience before engaging in day trading.

*Day trading requires knowledge of a firm's operations.* You should be familiar with a securities firm's business practices, including the operation of the firm's order execution systems and procedures. Under certain market conditions, you may find it difficult or impossible to liquidate a position quickly at a reasonable price. This can occur, for example, when the market for a stock suddenly drops, or if trading is halted due to recent news events or unusual trading activity. The more volatile a stock is, the greater the likelihood that problems may be encountered in executing a transaction. In addition to normal market risks, you may experience losses due to system failures.

*Day trading will generate substantial commissions, even if the per trade cost is low.* Day trading involves aggressive trading, and generally you will pay commissions on each trade. The total daily commissions that you pay on your trades will add to your losses or significantly reduce your earnings. For instance, assuming that a trade costs \$16 and an average of 29 transactions are conducted per day, an investor would need to generate an annual profit of \$111,360 just to cover commission expenses.

*Day trading on margin or short selling may result in losses beyond your initial investment.* When you day trade with funds borrowed from a firm or someone else, you can lose more than the funds you originally placed at risk. A decline in the value of the securities that are purchased may require you to provide additional funds to the firm to avoid the forced sale of those securities or other securities in your account. Short selling as part of your day trading strategy also may lead to extraordinary losses, because you may have to purchase a stock at a very high price in order to cover a short position.

*Potential Registration Requirements.* Persons providing investment advice for others or managing securities accounts for others may need to register as either an “Investment Advisor” under the Investment Advisors Act of 1940 or as a “Broker” or “Dealer” under the Securities Exchange Act of 1934. Such activities may also trigger state registration requirements.

## **Business Continuity Plan: FINRA Rule 4370**

As a fully disclosed and omnibus clearing firm, we have developed a Disaster Recovery (“D/R”) Plan to ensure business continuity. In our capacity as clearing firm, we provide a variety of services that require the provision of continual technological and operational support to your broker and to your registered investment advisor as the broker dealer on record. In connection with accomplishing business continuity, we have established a remote independent D/R Site as a major component of our D/R Plan. This Site has resources in place to operate and maintain business critical processes in the event that our primary location cannot be occupied due to anything from a natural disaster to a terrorist attack, whether or not such an event affects only our firm or is more regional in scope. The D/R Plan contemplates restoration of critical processes within a twenty-four hour time span. Please note that the specifics of our D/R Plan are subject to modification. You may obtain a copy of our most current D/R Plan on our website, [www.apexclearing.com](http://www.apexclearing.com).

## **SEC Rule 606 and 607**

### **Disclosure of Payment for Order flow and Order Routing Information**

Pursuant to SEC Rule 606, Apex is required to make publicly available a quarterly report with regard to its routing of non-directed orders. For the purpose of this Rule, we have entered into an agreement with S3 Matching Technologies LP, to disclose all required information pertaining to this rule. This information can be accessed on the internet at: [www.apexclearing.com](http://www.apexclearing.com).

SEC Rule 606(b) requires a broker-dealer to disclose to its customers, upon request, “the identity of the venue to which the customer’s orders were routed for execution in the six months prior to the request, whether the orders were directed orders or non-directed orders, and the time of the transactions, if any, that resulted from such orders.”

Pursuant to SEC Rule 607, Apex is required to disclose its payment for Order Flow practices. Apex sends certain equity orders to exchanges, electronic communication networks, or broker-dealers during normal business hours and during extended trading sessions. Some of those market centers provide payments to Apex, or charge access

fees depending upon the characteristics of the order and any subsequent execution. In addition, Apex may execute certain equity orders as principal. The details of these payments and fees are available upon written request. Apex receives payments for directing listed options order flow to certain option exchanges. Compensation is generally in the form of a per-option contract cash payment. This disclosure only applies to orders directed to Apex by your firm.

## **SEC Rule 10b-10**

SEC Rule 10b-10 requires that you are provided with prior written notification if certain transactions are not reported immediately through a trade confirmation. You will not receive an immediate trade confirmation for automatic reinvestments of money market dividends if there are no other transactions in your brokerage account on the day the automatic reinvestment occurs. A summary of these transactions will instead be reported in your quarterly brokerage account statement.

## **SIPC Information: FINRA Rule 2266**

As a member of the Securities Investor Protection Corporation (“SIPC”), funds are available to meet customer claims up to a ceiling of \$500,000, including a maximum of \$250,000 for cash claims. For additional information regarding SIPC coverage, including a brochure, please contact SIPC at (202) 371-8300 or visit [www.sipc.org](http://www.sipc.org).

Additionally, Apex has arranged for coverage above the SIPC limits; for more information please contact your firm directly.

## **Investor Education and Protection: FINRA Rule 2267**

FINRA Rule 2267 requires Apex to provide information about FINRA’s BrokerCheck program. An investor brochure that includes information describing the BrokerCheck program may be obtained from FINRA. The FINRA BrokerCheck hotline number is (800) 289-9999. The FINRA web site address is [www.FINRA.org](http://www.FINRA.org).

## **Mutual Funds - Charges, Breakpoints, and Fees**

Before investing in mutual funds, it is important that you understand the sales charges, expenses, and management fees that you will be charged, as well as the breakpoint discounts to which you may be entitled. Understanding these charges and breakpoint discounts will assist you in identifying the best investment for your particular needs and may help you to reduce the cost of your investment. Information about charges, discounts, sales charges, expenses, management fees and breakpoint discounts vary from mutual fund to mutual fund. Therefore, you should discuss these matters with your firm and review each mutual fund’s prospectus and statement of additional information to obtain the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund.

In addition, most mutual funds offer different share classes. Although each share class represents a similar interest in a mutual fund’s portfolio, the mutual fund will charge you different fees and expenses depending upon the share class selected. As a general rule, Class A shares carry a “front-end” sales charge or “load” that is deducted from your investment at the time you buy shares. This sales charge is a percentage of your total purchase. Further, many mutual funds offer volume discounts to the front-end sales charge assessed on Class A shares at certain pre-determined levels of investment, which are called “breakpoint discounts.” Conversely, Class B and C shares usually do not carry any front-end sales charges. Instead, investors that purchase Class B or C shares pay asset-based sales charges, which may be higher than the charges associated with Class A

shares, and investors that purchase Class B and C shares may be required to pay a sales charges known as a contingent deferred sales charge when they sell their shares, depending upon the rules of the particular mutual fund. To learn more about mutual fund share classes, charges, breakpoints, and fees, you may want to consider reviewing the following FINRA investor alerts:

<http://www.finra.org/investors/alerts/understanding-mutual-fund-classes>

<http://www.finra.org/investors/alerts/mutual-fund-breakpoints-break-worth-taking>

## **Carrying Agreements: FINRA Rule 4311**

In the event that your account has been introduced to Apex by a broker-dealer, the broker-dealer with which you have opened your securities account has retained Apex to provide certain record keeping or operational services. These services, such as the execution and settlement of securities transactions, custody of securities and cash balances, and extension of credit on margin transactions, are provided under a Fully Disclosed Clearing Agreement between Apex and your broker-dealer. As a member of FINRA, Apex is required (under FINRA Rule 4311) to disclose to you the details of its Fully Disclosed Clearing Agreement with your broker-dealer, which are summarized below.

### *Responsibilities of Your Broker-Dealer*

Your broker-dealer has the responsibility to:

- Approve the opening of your account
- Obtain necessary documentation to help fight the funding of terrorism and money laundering activities
- Service and supervise your account through its own personnel in accordance with its own policies, procedures, applicable laws, and regulators
- Know you and your stated investment objectives
- Provide appropriate investment advice, recommendations, or management services based on your investment objectives
- Determine whether particular kinds of transactions such as margin, option, and short sale are appropriate for you
- Obtain the initial margin as required by Regulation T if a margin account is opened for you
- Accept and, in certain instances, execute securities orders
- Know the facts about any orders for the purpose or sales of securities in your account
- Comply with fair pricing and disclosure responsibilities (if your firm is a market maker in any securities or otherwise trades as principal with you)
- Correctly identify and promptly forward funds or securities intended for your account to Apex
- Supervise the activities of any individual who services your account, resolve any complaints regarding the handling of your account and manage the ongoing relationship that it has with you

***Apex has no involvement and assumes no responsibility in all of the above matters relating to the servicing of your account.***

*Responsibilities of Apex*

In general, Apex is only responsible to perform the services within the scope of the Fully Disclosed Clearing Agreement that your broker-dealer specifically requests Apex to perform. For example, Apex may fulfill the following responsibilities on behalf of your account at your broker-dealer's instruction:

- Create computer based account records
- Process orders for the purchase, sale or transfer of securities (Apex is not obligated to accept orders directly from you and will do so only at Apex's discretion in exceptional circumstances)
- Receive and deliver funds and securities
- Record such receipts and deliveries according to information provided either by your firm or directly, in writing, by you
- Hold securities and cash in custody (after it comes into Apex's physical possession or control)
- Collect and disburse dividends and interest
- Process reorganization and voting instructions with respect to securities held in custody
- Prepare and transmit confirmations of trades to you with the exception of the following transactions which will alternatively appear on account statements:
  - Systemic investments or withdrawals of investment company products
  - Transactions in money market funds that have no purchase or redemption fees
  - Dividend reinvestments
- Prepare and transmit periodic account statements summarizing transactions
- Provide your firm with written reports of all transactions processed for your account to enable your firm to carry out its responsibilities under the Fully Disclosed Clearing Agreement
- Assist you and your firm with any discrepancies or errors that may occur in the processing of transactions.

*If your broker-dealer opened a margin account for you, Apex may:*

- Loan you money for the purpose of purchasing or holding securities (subject to the terms of Apex's, margin agreement, margin policies and applicable margin regulations)
- Calculate the amount of maintenance margin required and advise you of those requirements (usually through your firm)
- Calculate any interest charged on your debit balance

Apex maintains the books and records required by law and business practice. The Fully Disclosed Clearing Agreement does not encompass transactions in investments other than marketable securities, which Apex normally processes on recognized exchanges and over-the-counter ("OTC") markets. In furnishing services under the Fully Disclosed Clearing Agreement, Apex may use and rely upon the services of clearing agencies, automatic data processing vendors, proxy processing, transfer agents, securities pricing services and other similar organizations. This document addresses the basic allocation of functions regarding the handling of your account. It is not meant as a definite enumeration of every possible circumstance, but only as a general disclosure.

***Further, regardless of whether our account has been introduced by a broker-dealer or registered investment advisor, Apex does not control, audit, or otherwise supervise the activities of your firm or its employees. Apex does not verify information provided by your firm regarding your account or transactions processed for your account. Apex does not undertake responsibilities for reviewing the appropriateness of transactions entered by your firm on your behalf.***

### **Extended Hours Trading Risk Disclosure: FINRA Rule 2265**

*Risk of Lower Liquidity.* Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower levels of liquidity in extended hours trading as compared to regular market hours. As a result, your order may only be partially executed, or not at all.

*Risk of Higher Volatility.* Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater levels of volatility in extended hours trading than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in extended hours trading to what you might receive during regular market hours.

*Risk of Changing Prices.* The prices of securities traded in extended hours trading may not reflect the prices either at the end of regular market hours, or upon the opening of the next morning. As a result, you may receive an inferior price in extended hours trading to what you might receive during regular market hours.

*Risk of Unlinked Markets.* Depending on the extended hours trading system or the time of day, the prices displayed on a particular extended hour's system may not reflect the prices on other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive an inferior price on one extended hours trading system than you might receive on another extended hours trading system.

*Risk of News Announcements.* Normally, issuers release news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.

*Risk of Wider Spreads.* The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.

*Risk of Lack of Calculation or Dissemination of Underlying Index Value or Intraday Indicative Value ("IIV").* For certain Derivative Securities Products, an updated underlying index value, or IIV, may not be calculated or publicly disseminated in extended trading hours. Since the underlying index value and IIV are not calculated or widely disseminated during the pre-market and post-market sessions an investor who is unable to calculate implied values for certain Derivative Securities Products in those sessions may be at a disadvantage to market professionals.

## Liens and Levies

If, for any reason, your account(s) is/are subject to a lien or levy directed to Apex, Apex will abide by the directions of the federal, state, or other levying authority unless it receives:

- A court order staying or quashing the lien or levy
- Some other form of release from the levying authority

If Apex receives a lien or levy on your account, you may be assessed a reasonable processing fee. Questions concerning liens or levies may be directed to the Compliance Department at (214) 765-1055.

## Regulation E

Regulation E of the Board of Governors of the Federal Reserve System requires disclosure regarding electronic transfers. Electronic transfers include:

- *Authorized Debits* – A client provides their checking account information to a company (such as mortgage, utility) and the company electronically sends debits directly to the client’s checking account, which debits the brokerage account.
- *Debit Card Transactions* – Any merchant purchase, automatic teller machine (ATM) withdrawal or cash advance done with the debit card issued from the account.
- *Check conversion* – A client provides checks for deposit into their Apex accounts which Apex scans and converts them into either an image replacement document (IRD) or ACH file.

Questions concerning electronic transfers may be directed to your firm.

## Callable Securities: FINRA Rule 4340

Once a security is deemed callable (callable security) by the issuer, DTC or the custodian will notify Apex of the call and we will implement a random lottery call process, based on account eligibility. Eligibility for the random lottery process is based on the securities call classification of ‘favorable redemption call’ or ‘unfavorable redemption call’. The term favorable or unfavorable is based on a comparison between the call price and the market price. When the comparison between the call price and market price are beneficial to the account, the call is deemed favorable. Favorable redemption calls will exclude any account in which Apex or its associated persons have an interest until all other customers' positions in such securities have been satisfied.

An unfavorable redemption call is when the comparison between the call price and market price are not as beneficial to the account and therefore deemed unfavorable. Apex will not exclude its positions or those of its associated persons (including those persons performing solely clerical and ministerial functions) from the pool of any securities deemed unfavorable and eligible to be called.

A determination will be made as to which redemption call the security is subject to (favorable or unfavorable) prior to commencement of the lottery process.

Once the terms of the call have been determined and eligible accounts have been selected, the random lottery process will occur to select accounts for the partial call redemption. A random start and jump number is executed at the beginning of the lottery to ensure the process is impartial, fair and consistent with the call

allocation. When the redemption call has ended for each security, Apex is notified of the called account by its vendor and will inform your firm who will notify you of your account status, if applicable.

### **Complaints: FINRA Rule 4513**

The FINRA has jurisdiction over virtually every brokerage firm and its employees. To request an informational brochure, inquire about your broker-dealer firm or file a complaint, visit their website at [www.finra.org](http://www.finra.org) or call (301) 590-6500.

### **Financial Exploitation of Specified Adults and Trusted Contract Person**

Under FINRA Rule 4512, Apex is required to disclose to you (the customer) that Apex or an associated person of Apex is authorized to contact the trusted contact person you may have identified in your account opening documents and disclose information about your account to address possible financial exploitation, to confirm the specifics of your current contact information, health status, or the identity of any legal guardian, executor, trustee or holder of a power of attorney, or as otherwise permitted by FINRA Rule 2165.