

Compliance and
Supervisory Procedures Manual
August 30, 2020

PART II:
Written Supervisory Procedures

1. Overview and Scope of Operations
2. Registrations and Memberships
3. Supervisory Responsibilities and Supervisory Control Procedures
4. Financial Reporting
5. Communication With the Public
6. Special Account For Customer Funds
7. Customer Account Records
8. New Products
9. Trade Review
10. Blotters
11. Account Activity
12. Branch Office Supervision
13. Customer Complaints
14. Hiring Procedures and Personnel Files
15. Prevention of Insider Trading
16. Annual Compliance Meeting
17. Record Keeping – Operational & Financial
18. Record Keeping – Administrative
19. Continuing Education
20. Anti-Money Laundering Procedures

Revised 8.2020

21. Direct Participation Program Procedures
22. Non-Cash Compensation
23. Gifts, Gratuities, and Business Entertainment
24. Outsourcing
25. Regulation Best Interest

1 Overview and Scope of Operations

Verity Investments, Inc. is engaged in the sale of mutual funds, variable annuities, Section 529 Plans, and direct participation programs (DPPs) on an application-way basis only; is registered as a broker/dealer with the Securities & Exchange Commission (SEC) and various state securities administrators; is a member of the Financial Industry Regulatory Authority, Inc. (FINRA); and is registered with the Municipal Securities Rulemaking Board (MSRB). These regulatory agencies govern the operations of Verity Investments, Inc. through various rule requirements. The requirements relating to the firm's activities as a broker/dealer are addressed in these supervisory procedures.

The intent of this manual is to outline pertinent regulations governing the operations of a broker/dealer and to set forth procedures to enforce these regulations. Included are procedures for the proper supervision of registered representatives affiliated with Verity Investments, Inc.

Any questions regarding these procedures should be directed to the Chief Compliance Officer of Verity Investments, Inc. These procedures are designed to comply with securities laws and regulations and with the rules of FINRA. They will be amended as appropriate to reflect changes in securities laws and regulations.

The Compliance Officer will distribute copies of this manual, along with copies of any subsequent revisions, to all registered principals of the company and to any registered person with supervisory responsibilities. Acknowledgment of receipt of, and agreement to comply with, these procedures and any updates is contained in the compliance files.

Verity Investments, Inc. *does not*:

- ☐ accept cash or cash equivalents;
- ☐ accept margin accounts (and therefore does not engage in short sales);
- ☐ have any commission mark-ups;
- ☐ accept customer securities under any circumstances.

Registered Representatives affiliate with Verity Investments, Inc. under an independent contractor arrangement.

Physical Office Locations

The home office is located in Durham, North Carolina. The supervisors for the home office are Gordon T. Wegwart and Amy L. Simonson. The firm also maintains branch offices and may have non-branch locations. Branch office(s) will maintain a copy of these Procedures and will be subject to annual reviews. Non-branch locations are subject to periodic review as specified in Section 12: Branch Office Supervision.

All financial and operational records are maintained at the home office location: 280 South Mangum Street, Suite 550, Durham, NC 27701. This address is reflected on the firm's current Form BD filing, and any future change of address will be filed with the FINRA.

A listing of branch offices is as follows:

Listing of Branch Offices

Wilmington, NC	701 North 4th Street Wilmington, NC 28401	Person in charge: A. Neal Huggins
Carrboro, NC	205 Hillsborough Street Carrboro, NC 27510	Person in charge: Lorren Bryant
Blacksburg, VA	119 Church Street, Suite 100 Blacksburg, VA 24060	Person in charge: Ron Gibbs
Oakdale, CA	213 S. Sierra Avenue Oakdale, CA 95361	Person in charge: Daniel Krause
Pleasanton, CA	4625 First Street, Suite 240 Pleasanton, CA 94566	Person in charge: Chris Chatto
Greensburg, PA	1602 Broad Street Greensburg, PA 15601	Person in charge: Dennis Burd

2 Registrations and Memberships

Representative Registration

Representatives may not solicit any type of securities business, including municipal securities business, unless they are properly registered and the firm's membership agreement permits the firm to engage in business of that type. Assuring that proper registration is obtained prior to permitting solicitation is the responsibility of the Compliance Officer. Under the supervision of the Compliance Officer, the trade review principal will review registered representative registrations as needed to verify compliance in conjunction with the review of all applications for new business.

State Appointments

While the majority of clients of the firm reside in North Carolina, Verity Investments, Inc. does do business in accordance with securities regulations in other states. Registered representatives are generally prohibited from soliciting any type of securities business in states where both they and the firm are not currently registered. Specific exceptions may be made with prior written authorization from the Compliance Officer for states that offer *de minimus* exemptions (see Section 12 – Hiring Practices).

All of the firm's state registrations are established under the supervision of the Chief Compliance Officer. A listing of authorized states is maintained by the Chief Compliance Officer and is distributed to all registered representatives with the Compliance Manual.

Lost and Stolen Securities Program

Verity Investments, Inc. is registered as a Direct Inquirer under the Lost and Stolen Securities Program. The Lost and Stolen Securities Program provides for the reporting of stolen securities, missing or lost securities and counterfeit securities. All inquiries and reports made under this program are to be made to the Securities Information Center in Wellesley Hills, MA under the direct supervision of the Financial and Operations principal. Since the firm does not take receipt of customer securities under any circumstances, it is unlikely that the firm will actually access this system.

MSRB Material Events Notice

To provide reasonable assurance that the firm will receive notice of material events in accordance with SEC Rule 15c2-12(c), the firm maintains updated address information with all Section 529 issuers with whom it maintains selling agreements.

3 Supervisory Responsibilities and Supervisory Control Procedures

Overview

Financial Industry Regulatory Authority (“FINRA”) rules require broker-dealer members to establish and maintain a system and written procedures to supervise the activities of their personnel, which are reasonably designed to achieve compliance with the federal securities laws and FINRA rules. As part of FINRA’s rulebook consolidation process, on December 23, 2013, the SEC approved FINRA’s proposal to consolidate several existing NASD and NYSE rules and interpretations relating to supervision into new FINRA rules. New FINRA Rules 3110 (Supervision) and 3120 (Supervisory Control System) are largely based on and do consolidate and replace existing NASD Rules 3010 and 3012 and various related NASD interpretive material and Incorporated NYSE Rules.

Rule 3130 requires a member’s CEO or equivalent officer to certify annually that the firm has a process for the establishment, maintenance, review, testing, and modification of written compliance procedures and supervisory policies and procedures that is reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules, and federal securities laws and regulations.

CEO Certification

In compliance with FINRA Rule 3130, the firm’s President will certify to the Board of Directors by April 1 annually that the firm’s senior management has in place processes to establish, maintain, and review written compliance policies and supervisory procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations; modify those procedures as business, regulatory and legislative changes dictate; and test the effectiveness of the procedures on a periodic basis. Since he is also the firm’s Chief Compliance Officer, he will also certify that he has conducted one or more meetings in the preceding 12 months with the other supervisory principals who are members of senior management, Sean McGill and Amy Simonson, to discuss these processes. A report evidencing the firm’s processes will be furnished to the Board of Directors in advance of the annual certification.

Designation of Principal Responsible for Supervisory Control Procedures

Gordon T. Wegwart, has been designated effective January 1, 2017 as principal responsible for the firm’s Supervisory Control Procedures under FINRA Rule 3120. On or before April 1 annually, he will complete testing of the firm’s supervisory procedures and, where necessary, arrange for amendment of procedures or creation of new procedures to achieve requisite compliance. A written report of these activities will be submitted annually by April 1 to senior management.

Designations of Principals – General

Verity Investments, Inc. will seek to maintain an adequate ratio of registered principals to registered representatives based on the volume and nature of the firm’s business. The firm will make all reasonable efforts to determine that all supervisory personnel/registered principals are qualified by virtue of experience and/or training to carry out their assignments.

Heightened Supervision for Representatives with Regulatory History

Should the firm elect to hire a registered representative with a history of customer complaints, disciplinary actions, or arbitrations, or should a registered representative develop such a history during his or her employment, the Compliance Officer will examine the circumstances of each such case and make a reasonable determination regarding the need for special supervisory procedures. A similar review will be conducted when hiring registered persons from a **firm** known to have been disciplined. Where the firm’s standard procedures are deemed inadequate, the Compliance Officer will develop additional written procedures based upon the areas of concern, including a designation of the person or persons responsible for carrying out the heightened supervision, its frequency and scope, the period of time it will remain in effect, and the manner in which the designated supervisors will document the supervision and attest to their review. In addition, the Compliance Officer will notify the registered representative and his or her supervisor(s) of the terms of the added supervision. Any discrepancies or concerns detected during the course of the heightened supervision are to be reported to the Compliance Officer, who will take appropriate action.

Supervision of Supervisory Personnel - General

FINRA Rule 3110(b)(6) prohibits a firm's supervisory personnel from (1) supervising their own activities; and (2) reporting to, or having their compensation or continued employment determined by, a person the supervisor is supervising. Gordon T. Wegwart is the firm's President and Chief Compliance Officer. He supervises the account activity of other Supervisory Personnel. William Hopwood will review the account activity of the President, and in his absence, reviews will be conducted by Amy Simonson. Although they report directly to the firm's President, they each have the ability to report to other members of senior management regarding potential abuses in connection with supervision of the President's activities. The other members of senior management collectively control the majority of the votes on the Board of Directors and thus have the ability to discipline or remove the President if warranted. Although the firm believes that it has greatly mitigated the potential for self-supervision by the President, it has concluded that it cannot completely comply with the prohibitions of FINRA Rule 3110(b)(6)(C) due to the President's very senior executive position, and does claim and rely on the "Limited Exception" to the rule. A current list of principal assignments and the effective dates for such assignments is maintained by the Chief Compliance Officer. The firm will maintain these lists for a period of not less than six years.

Qualifications of Principals and Other Supervisory Personnel

Steps will be taken to develop reasonable assurance that supervisory personnel are qualified for the position they will occupy. Proper registration for the position is a prerequisite. In addition, an assessment will be made of the individual's prior experience with the same responsibilities or the potential applicability of related experience if direct experience is not held. In the event that the individual does not have direct experience, they will be closely supervised by the Compliance Officer for such period as may be necessary for the Compliance Officer to become confident of the individual's ability to effectively perform in the role. During this period, the Compliance Officer will review the work on a detailed basis to determine thoroughness, understanding of the appropriate issues, firmness in requiring compliance, and ability to handle all of the various tasks within proper time frames.

Designation of Supervisory Responsibilities

A current record of the assigned supervisory responsibilities is as follows:

Designation of Supervisory Responsibilities

Name: Gordon T. Wegwart
Position: President, Chief Compliance Officer, and Executive Representative
Principal Status: General Securities (Series 24)
Date Appointed: Series 26 – Inception / Series 24 – 10/15/2003 / Series 14 – 10/1/18
Office of Employment: 280 S. Mangum St., Suite 550, Durham, NC 27701

Responsibilities

- ☐ As President, will certify on an annual basis by April 1 that the firm has in place the processes required under FINRA Rule 3130 as specified in these procedures.
- ☐ Obtain and maintain copies of selling agreements, including maintenance of current contact information with issuers to assure that the firm will receive notice about all material events. Verify firm's compliance with the obligations of each selling agreement.
- ☐ Is designated and identified to FINRA as the principal responsible for the firm's Supervisory Control Procedures under FINRA Rule 3120 and as such will, by April 1, on an annual basis, be responsible for carrying out the requirements of this role as specified in these procedures.
- ☐ Is designated and identified to FINRA as the firm's Anti-Money Laundering Compliance Officer, with responsibility for policies and procedures, supervision, filing of pertinent reports with regulatory agencies, training of personnel, and recordkeeping for the firm's Anti-Money Laundering Program.
- ☐ Maintain FINRA Restrictive Agreements, CRD reports, and other regulatory reports.
- ☐ Supervise all form filings and amendments (Forms BD, BDW, U-4, U-5)
- ☐ Review and approve investments offered by the company.
- ☐ Review and disposition of customer complaints.
- ☐ Firm compliance under the Insider Trading and Securities Fraud Enforcement Act of 1988 including, but not limited to, the annual review of insider trading procedures, compliance with internal insider trading policies, written notification to management of abuses of firm policy with respect to insider trading, preparing and instituting annual educational programs, maintaining employee agreements to abide by insider trading policies, monitoring employee trading at other broker/dealers.
- ☐ Review and approve advertising, business cards, stationery and submit to FINRA Advertising for approval, where applicable.
- ☐ Maintain copies of internal communications, including, in particular, internal email
- ☐ Supervision of daily sales activities in connection with transactions in all securities.
- ☐ Conduct or supervise a monthly review of customer account activity to detect sales practice abuses.
- ☐ Supervision of all back office operations and administrative record keeping requirements.
- ☐ Designate in writing OSJ branch office and non-branch locations and supervise activity.
- ☐ Designate in writing one or more appropriately registered principals in each OSJ including the main office and one or more appropriately registered representatives or principals in each non-OSJ branch office with authority to carry out the supervisory responsibilities assigned to that office.
- ☐ Direct the annual review of business under FINRA Rule 3110. Conduct or oversee inspections of branch and non-branch locations. Maintain written records of review and inspections.
- ☐ Designate in writing supervisory assignments of all registered representatives.
- ☐ Conduct annual Continuing Education Needs Analysis, write annual Continuing Education Plan, prepare continuing education training programs, document attendance, serve as FINRA contact person.
- ☐ Monitor training for and compliance with the company's Do Not Call policy.
- ☐ Update firm's contact information on FINRA Contact System within 17 business days of quarter end.
- ☐ Maintain responsibility for the firm's Privacy Policy.
- ☐ Maintain responsibility for the firm's Social Media Policy.
- ☐ Conduct or supervise background investigations prior to permitting registered representatives to become associated with the company. Such investigation will include, but not be limited to, obtaining a current Form-U4, a copy of the most recent Form-U5 (if applicable), fingerprint card, verification of employment history, and private background check.
- ☐ Forward fingerprint cards to FINRA for timely processing.

Name: Amy L. Simonson
Position: Vice President
Principal Financial Officer / Financial and Operations Principal
Principal Operations Officer
Principal Status: Investment Products (Series 26)
Financial and Operations Principal-Limited (Series 28)
Municipal Securities (Series 53)
Direct Participation Programs (Series 39)
Operations Professional (Series 99)
Date Appointed: Series 26 --Since Inception
Series 28 -- 7/23/98
Series 53 -- 11/29/00
Series 39 -- 10/15/03
Series 99 -- 12/14/11
Office of Employment: 280 S. Mangum St., Suite 550, Durham, NC 27701

Responsibilities

- ☐ Assure compliance with all SEC, FINRA, and MSRB rules and regulations pertaining to the currency, accuracy and maintenance of books and records and supervise the preparation of all FOCUS reports and Schedule I.
- ☐ Supervise and maintain responsibility for the monitoring and review of all Expense Sharing Agreements.
- ☐ Review financial records on a regular basis.
- ☐ Supervise filing of annual audited reports.
- ☐ Direct the preparation and filing of state and federal tax returns.
- ☐ Conduct annual review of fidelity bonding coverage and obtain renewal prior to expiration.
- ☐ Make prompt annual payments to FINRA (including renewal fees and assessments) and SIPC.
- ☐ Make any inquiries or reports under the Lost and Stolen Securities Program
- ☐ Oversee, in coordination with the overall firm procedures maintained by the Chief Compliance Officer, supervision of the municipal securities activities of the firm and its associated persons
- ☐ Review and approve all Section 529 Plan applications, or supervise the review process conducted by other municipal securities principals, as applicable
- ☐ Supervise the commission process and maintain commission records for all registered representatives
- ☐ Provide notification of use of electronic storage media under SEC Rule 17a-4
- ☐ Maintain user access controls to all financial reporting software used by the firm
- ☐ Supervise any staff performing bookkeeping functions or other work relating to the financial books and records of the firm
- ☐ Review and approve the use of any manual processes (e.g. spreadsheets) used by the firm as supplemental schedules to the books and records maintained within the firm's financial reporting system

Name: Sean J McGill
Position: Vice President
Designated Principal
Principal Status: Investment Products (Series 26)
Direct Participation Programs (Series 39)
Date Appointed: Series 26 -- Since inception
Series 39 -- 6/14/04
Office of Employment: 280 S. Mangum St., Suite 550, Durham, NC 27701

Responsibilities

- ☐ Assure, in interactions with registered representatives, that they are in all observed activities and communications with the public, adhering to compliance procedures and securities regulations

Name: William R. Hopwood
Position: Designated Principal
Principal Status: General Securities (Series 24)
Date Appointed: Series 24 – 1/1/07
Office of Employment: 280 S. Mangum St., Suite 550, Durham, NC 27701

Responsibilities:

- ☐ Co-supervision of daily sales activities in connection with transactions entered by the firm's President or as needed in absence of Steven Butz or Gordon T. Wegwart.
- ☐ Supervise the personal account activity of the President, Gordon T. Wegwart
- ☐ Designated as the firm's back-up Anti-Money Laundering Compliance Officer

Name: Troy A. Dryer
Position: Branch Examiner
Principal Status: General Securities (Series 24)
Date Appointed: Series 24 – 3/25/19
Office of Employment: 280 S. Mangum Street, Suite 550, Durham, NC 27701

Responsibilities:

- ☐ Inspections of branch and non-branch locations.

Name: Daniel L. Krause
Position: Field Supervisor
Principal Status: None
Date Appointed: 5/2019
Office of Employment: 213 S. Sierra Avenue, Oakdale, CA 95361

Responsibilities:

- ☐ General supervision of sales activities and compliance conduct of assigned registered representatives.

Name: Christopher M. Chatto
Position: Field Supervisor
Principal Status: None
Date Appointed: 5/2019
Office of Employment: 4625 First Street, Suite 240, Pleasanton, CA 94566

Responsibilities:

- ☐ General supervision of sales activities and compliance conduct of assigned registered representatives.

**Annual Compliance and Supervisory Procedures Certification
FINRA Rule 3130**

The undersigned, as President of Verity Investments, Inc. (the “Member”), makes the following certification:

1. The Member has in place processes to:
 - (a) Establish, maintain, and review policies and procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules, and federal securities laws and regulations.
 - (b) Modify such policies and procedures as business, regulatory, and legislative changes and events dictate; and
 - (c) Test the effectiveness of such policies and procedures on a periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with FINRA rules, MSRB rules, and federal securities laws and regulations.
2. The President has conducted one or more meetings during the prior 12 months with the other registered principals who are members of senior management, the subject of which satisfy the obligations set forth in IM-3013.
3. The Member’s processes, with respect to paragraph 1 above, are evidenced in a report reviewed by the President and Chief Compliance Officer and submitted to the Board of Directors.
4. The President and Chief Compliance Officer has consulted with other officers (referenced in paragraph 2 above) and such other employees, outside consultants, lawyers, and accountants, to the extent deemed appropriate, in order to attest to the statements made in this certification.

Gordon T. Wegwart, President

Date

4 Financial Reporting

Net Capital Requirements

In accordance with SEC Rule 15c3-1, Verity Investments, Inc. will maintain the minimum net capital requirement based upon its operations. As of the date of this manual, the firm's net capital requirement is \$25,000. The FINOP understands that minimum net capital is a continuous requirement and that the firm will maintain adequate excess net capital at all times. The FINOP will formally compute net capital on a monthly basis unless proximity to the minimum net capital requirement dictates otherwise. In the event that the firm's net capital at any time falls below the minimum requirement, immediate notification will be provided by the FINOP to both FINRA and the SEC. Each month, a record of the net capital calculation will be retained among the central files of the firm. The FINOP shall verify the accuracy of the report, evidenced by his or her initials.

Expense Sharing Agreement

The Financial Operations Principal is responsible for maintaining the Expense Sharing Agreement and for Verity Investments, Inc. the Expense Sharing Schedules with respect to both the parent, Verity Financial Group, and its affiliate, Verity Asset Management. At the beginning of each fiscal year, overhead expenses and personnel expenses are allocated to Verity Investments, Inc. using a proportionate revenue formula based on prior year revenue. A Management Fee Expense is booked on a monthly or quarterly interval, at the discretion of the FINOP, payable to the parent or affiliate, on a level basis for the full fiscal year. The FINOP may, if any material changes occur, revisit the expense allocation during the year. At the end of the fiscal year, the FINOP reviews the expense allocation and compares to actual expenses, making any adjustments to the recording of expenses if required.

Preparation and Retention of Regulatory Reporting

A FOCUS IIA report will be completed and submitted to the FINRA Washington Office and the FINRA District Office not later than the 17th business day following each calendar quarter end. Submission shall be made through Regulation Systems. Verification of accuracy shall be evidenced by the FINOP's signature on the printed record retained in the office.

An independent annual audit will be filed with the SEC, FINRA, and each state (where required) in which the firm is registered within 60 calendar days following the end of the firm's fiscal year end. The FINOP is charged with responsibility for hiring the auditors. Verification of the accuracy of the audit shall be evidenced by the FINOP's signature on the audit report.

5 Communication With the Public

General Standards

All communication with the public (including correspondence, advertising and sales literature) will adhere to the principles of fair dealing and good faith, will be fair and balanced, and will provide a sound basis for evaluating the facts in regard to any particular security, type of security, or industry discussed or any service offered. No material fact or qualification may be omitted and that the advertising or sales literature may not be misleading. Exaggerated, unwarranted or misleading statements or claims are prohibited.

All communication must have the company's name prominently identified. If an individual is named, the nature of affiliation or relationship of the individual and the company must be made clear. (See FINRA NTM 89-22) When multiple entities are named in one communication, both the nature of the relationships between the company and the other entities, and the products offered by each entity will be made clear. No reference will be made to nonexistent degrees or designations.

When using the phrases "Securities Offered Through" and "Service Of", Verity Investments, Inc. will be clearly and prominently disclosed. The securities function must be clearly identified as a function of Verity Investments, Inc. rather than other entities also named in the communication.

Retail Communication Policy

The Compliance Officer will authorize all retail communication prior to use. "Retail communication" means any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period. Should the company become aware of any unauthorized retail communication, immediate action will be taken to investigate the source and to take disciplinary action as may be appropriate.

Approval is evidenced by the initials of the Compliance Officer or his designee on a copy of the communication, including date of approval and date of first use.

Retail communication that mentions mutual funds or variable annuities, except as part of a list of product types offered by the firm, will be submitted to FINRA Advertising for approval within 10 days of first use.

Institutional Communication Policy

Any institutional communication by members of the firm will be subject to the same policies and procedures as retail communication.

Maintenance of Advertising/Retail Communication Files

The Compliance Officer maintains files of all retail communication and submits proposed advertising to FINRA for approval where required. Retail communication (including advertising and/or sales literature) may not be circulated without prior approval.

Maintenance of Current Sales Literature

The Compliance Officer or his designee conducts a periodic review of literature supplies to ensure that outdated information is removed. Upon receipt of any revised prospectuses, or other notice that the present supply of prospectuses is no longer effective, the Compliance Officer will see that the outdated information is discarded.

Reviewing Correspondence

Verity Investments, Inc. requires prior approval by the Compliance Officer of all outgoing written correspondence and facsimiles, except for email correspondence, which does not require prior approval but is subject to review (see below). "Correspondence" means any written communication that is distributed or made available to 25 or fewer retail investors within any 30 calendar-day period. Initialed copies of all correspondence are maintained in chronological order in a file located with the firm's compliance files.

All incoming correspondence, including mail marked 'personal' or 'confidential', is sorted and opened by a person, such as an office manager, designated by the Compliance Officer. Unsolicited forms of mail may be forwarded directly to the addressee, but all correspondence is first reviewed by the Compliance Officer or his designee for customer complaints, checks or securities, and any indication of improper activity. Personal correspondence received by fax is subject to the same review process.

Correspondence received by a field office must be opened and reviewed by the designated principal for the same purposes. Any complaints, cash, checks payable to a representative or to Verity Investments, or any indication of improper activity is to be communicated to the Compliance Officer immediately (within 24 hours) by both phone and facsimile. Originals are to be retained in a file marked 'Incoming Correspondence'.

Individuals who receive mail and/or facsimile transmissions from customers directly due to remoteness from their field office must forward the original correspondence to the field office on a weekly basis. Responsibility for compliance with this procedure, when it is authorized, falls upon the person in charge of the field office.

Electronic mail falls under the FINRA definition of 'correspondence.' As such, e-mail directed to customers is subject to the same general standards as other correspondence. Registered representatives and associated persons are prohibited from conducting any e-mail communication in the conduct of their business association with Verity Investments, Inc. from any address other than their assigned verityinvest.com e-mail address. The use of any electronic device for the purpose of e-mail communication is prohibited unless both incoming and outgoing correspondence is captured by the firm's e-mail retention system. All e-mail will be captured and retained on non-rewriteable media for regulatory review. To monitor compliance, e-mail is subject to random review by the Compliance Officer without obtaining prior approval. The Compliance Officer will spot check e-mail correspondence no less than quarterly on a cycle that results in review of correspondence from all representatives no less than annually. Documentation will include registered representative names, the key words and phrases used in searches, periods searched, and the date searches were conducted. This documentation will be signed and dated by the Compliance Officer and retained in the compliance files.

Instant messaging or text messaging for business purposes is prohibited.

Each year's compliance meeting will include training from FINRA Conduct Rule 2210 designed to make registered representatives knowledgeable of the regulations governing communications with the public. As an additional precaution, certain individuals, particularly persons inexperienced in the field of securities, may be required by the Compliance Officer to submit all e-mail for pre-approval before forwarding to customers. Any other individuals who demonstrate a pattern of correspondence that is of regulatory concern in the sole judgment of the Compliance Officer will also be required to have all outgoing e-mail pre-approved.

Speaking Engagements

All speaking engagements must be expressly approved in writing by the Compliance Officer. Approval must be based upon a detailed review of the outline of the content of the presentation, presentation materials, handouts, advertising, and promotional materials. Any outside speakers and any expense sharing arrangements with outside parties require written approval. Additionally, no fees may be charged, even to cover expenses, without prior written approval.

FINRA considers unscripted participation in an electronic forum, such as an Internet chat room as a public appearance. In addition, interactive posts to social networks such as Twitter, Facebook, and Linked In would be similarly considered public appearances. Verity does not currently have policies and procedures in place to appropriately supervise and document such activities, so any participation in electronic forums or social media for business purposes is currently prohibited unless specifically approved in each individual instance by the Compliance Officer and conducted under his supervision.

Seminars for Senior Investors

Particular attention will be addressed to seminars containing content that may be particularly applicable to senior investors or which may in any manner be directed to senior investors. The Compliance Officer will

review any such applications to verify that content is not inclined to create an artificial or inappropriate sense of urgency around major decisions or commitments, will not be likely to heighten or exaggerate typical fears of older investors, and will not indicate or imply misleading credentials on the part of persons sponsoring or participating in the seminar. A roster of persons attending the seminar, including contact information, must be turned in to the Compliance Officer. The Compliance Officer will follow up by contacting one or more attendees to verify to his or her satisfaction that policy in this area was not violated.

Do Not Call Policy

Verity Investments, Inc. maintains, under the supervision of the Compliance Officer, written procedures covering telephone communications with the public which are designed to assure compliance with both Federal and state regulations and Do Not Call laws. These procedures are fully elaborated in the Compliance Manual which is provided to all representatives. Training on the use of these procedures is included in the initial orientation and training of new personnel and is reviewed in detail as part of the firm's Annual Compliance Meeting. Content of training and attendance are documented.

Verity Investments, Inc., through its parent company, Verity Financial Group, Inc., is registered with the National Do Not Call Registry. Since the firm's representatives generally make only a very limited number of calls to numbers which are not either business numbers, established business relationships, or acquaintances, company personnel are required to search the National Registry directly prior to making any non-exempt calls. For this purpose, they are provided with a link and password information via the firm's internet site. Where necessary, representatives are also instructed to review state lists where pertinent if they are potentially different from the National Registry.

In addition the firm maintains an internal Do Not Call list in Outlook. This list is to be reviewed by representatives before making any calls. Records of establishment and maintenance of this registration will be maintained by the Compliance Officer.

Any requests for a copy of the firm's Do Not Call policy will be filled by the Compliance Officer within 30 days of the request.

Failure to comply with the company's Do Not Call policy will subject any personnel to internal disciplinary action at the discretion of the Compliance Officer to include suspension of calling privileges, fines, and/or termination.

Social Media Policy

Verity Investments, Inc. maintains, under the supervision of the Compliance Officer, written procedures covering the use of social media:

Categories of content:

- Interactive posts – will be spot reviewed periodically (if a post will recommend or promote any product or service, it becomes an advertisement, which is considered static content)
- Static content – REQUIRES PRE-APPROVAL

General guidelines:

- All business related participation on social networks such as Twitter, Facebook, and Linked-In fall under the terms of the Social Media Policy. Business communications will be defined as any content pertaining to the firm's business in any way, including but not limited to any profiles that list your employer, your job or job title, your work experience, your business related skills, or your professional designations; any offers to receive contacts for consulting, job inquiries, business deals, new ventures, expertise requests, or career opportunities; or any links to business-related groups. The definition of "business communications" is to be interpreted in the broadest possible manner; any uncertainties or "gray area" determinations should be brought to the Compliance Officer for interpretation.

- Use of social media for business purposes, as generally defined above, MAY ONLY BE CONDUCTED ON PLATFORMS EXPLICITLY APPROVED IN WRITING. Even on approved platforms, certain features may be prohibited from use. It is the responsibility of each user to be familiar with these details.
- Social media accounts maintained for personal, non-business purposes will be randomly spot checked by the CCO or his designee to reasonably verify that these accounts do not contain business related content. Searches for this purpose will be performed for accounts of each individual in the company no less than annually, with records retained in the compliance files.
- Testimonials from any source are prohibited – the Linked In “Recommendations” option must be blocked.
- Reference to past specific recommendations is prohibited.
- Verify any statement presented as a material fact.
- Biographies or profiles must contain only verifiable information which can be confirmed by the advisor’s personnel file.
- Specific performance may not be addressed on these platforms without prior approval.
- Avoid promissory language which cannot be substantiated. (For example, stating that we provide “peace of mind” can imply a result which cannot be guaranteed.)
- Avoid unsubstantiated claims (such as “we are the leading firm in our area ...”)
- Do not make any representations about the firm which are not contained in other approved media or advertising, unless they have been otherwise approved in writing.
- Do not make negative or otherwise disparaging statements about any person or entity.
- To avoid violation of intellectual property rights, avoid copying or paraphrasing the material of others without proper attribution.

Privacy / Security

- Do not share your login information with others such as family or friends if you use a site for business purposes.
- Do not house any personal client information on a site.
- Client and firm privacy policies and concerns apply in the same manner and to the same extent in this medium as in any other.

Approved platforms:

- Linked In is approved for all features except “Recommendations”, which is prohibited.
- Twitter may be approved by the CCO on an individual basis.
- No other platforms are approved at this time.

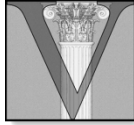
Monitoring / Archiving

- An archiving service will be used to permanently capture all content, including interactive posts, to permit regulatory review.
- Each individual desiring to maintain any social media accounts with business content must first enroll through the firm’s Chief Information Officer (Jeffrey Munsey) in the firm’s archiving service. Each individual will be responsible for paying any fees associated with this service.
- Individuals who desire only to “follow” business related content posted on Twitter accounts of others are not required to enroll in the firm’s archiving service. They will, however, be strictly prohibited from posting Tweets of their own. To provide for monitoring, individuals desiring to “follow” must first register their account in writing with the CCO and receive written approval. In addition, they must accept the CCO’s request to “follow” them to verify that they are not posting any content.

- The Compliance Officer will be responsible for pre-approval of static content and monitoring of interactive content. Interactive content will be spot checked no less than quarterly, with representative content of all covered persons reviewed at least once annually. Records of these approvals and reviews will be signed and retained in the compliance files.

Disciplinary Action

- First offense, if minor and potentially the result of some misinterpretation, will normally result in 6 month probation and heightened supervision. If more egregious, in the interpretation and at the discretion of the Compliance Officer, social media privileges may be suspended for 3 months or longer.
- Second offense will result in suspension of privileges for a minimum of 3 months, and potentially longer, at the discretion of the Compliance Officer.
- Third offense will result in suspension of privileges for a minimum of one year, and could incur more severe penalties, including termination, at the discretion of senior management in consultation with the Compliance Officer.



VERITY
INVESTMENTS INC.

COMPANY E-MAIL

POLICY ACKNOWLEDGEMENT

I understand and agree to abide by the following policies and procedures regarding e-mail correspondence with the public:

1. FINRA considers individual e-mail and instant messaging to fall under the standard definition of 'correspondence'. Both are thus subject to all of the same regulatory considerations as written forms of public correspondence.

2. FINRA considers e-mail to 25 or more persons to fall under the definition of 'sales literature' and as such it is subject to all of the same regulatory considerations as printed sales literature.

3. Registered representatives and associated persons are prohibited from conducting any e-mail communication in the conduct of their business association with Verity Investments, Inc. from any address other than their assigned verityinvest.com e-mail address. Any incoming e-mail from clients directed to an address other than the assigned verityinvest.com address is to be forwarded immediately to the Compliance Officer at the designated e-mail address, and any reply must be initiated from the assigned verityinvest.com e-mail address. The use of any electronic device for the purpose of e-mail communication is prohibited unless both incoming and outgoing correspondence is captured by the firm's e-mail retention system.

4. As a prerequisite to sending any e-mail correspondence, each representative must read and agree to abide by the provisions of FINRA Conduct Rule 2210(d) outlining Standards Applicable to Communications with the Public.

5. Any customer complaint received by an individual via e-mail is subject to the same procedures applicable to written customer complaints.

6. E-mail is subject to random review by the Compliance Officer.

7. Certain individuals, such as persons new to the firm, persons inexperienced in the field of securities, or individuals who demonstrate a pattern of correspondence that is of regulatory concern, in the sole judgment of the Compliance Officer, may be required to submit all e-mail for pre-approval before forwarding to clients.

8. Instant messaging and text messaging in the conduct of Verity Investments, Inc. business is prohibited.

Signature

Date

SPEAKING ENGAGEMENT APPROVAL REQUEST

NOTE: *Please furnish at least two weeks in advance of publicizing the event.*

Requesting Individual: _____ Code #: _____

Junior/Senior Partner: _____ Code #: _____

Office Address: _____

Type of Event: _____

Date: _____ Time: _____ Location: _____

Audience will consist of: _____

How are people notified of this event? _____

Primary Topic: _____

Additional Subjects: _____

Speaker (s): _____ Code #: _____
_____ Code #: _____

List All Handouts: _____

PLEASE ATTACH THE FOLLOWING:

- 1) An outline of the presentation
- 2) Copies of any handouts (other than company literature or client-approved literature provided by a fund company or insurance company on Verity's approved list)
- 3) Copies of any invitations, notices or advertising (all of which must have prior approval)

****Please Remember**** Discussion of any specific mutual fund or variable annuity will require the appropriate prospectus to be distributed to all participants.

Requesting Individual's Signature: _____ Date: _____

Junior / Senior Partner's Signature: _____ Date: _____

COMPLIANCE DEPARTMENT USE:

6 Special Account for the Exclusive Benefit of Customers

The Financial Operations Principal will maintain a bank account for the primary purpose of receiving and disbursing retirement plan checks from companies and non-profit institutions. At the option of the Financial Operations Principal, this account may also be used for processing other checks made payable to Verity Investments, Inc. for the purpose of investments in other client accounts. As specified in paragraph (k)(2)(i) of SEC Rule 15c-3, this account will be designated as "Special Account for the Exclusive Benefit of Customers of Verity Investments, Inc." The account will be kept separate from any other accounts maintained by Verity Investments, Inc.

Verity Investments, Inc. will execute a written contract with the bank which provides that the funds in this account shall at no time be used directly or indirectly as security for a loan to Verity Investments, Inc. by the bank and shall be subject to no right, charge, security interest, lien, or claim of any kind in favor of the bank or any person claiming through the bank.

This account will be directly supervised by the Financial Operations Principal. Only the Financial Operations Principal and such other officers of the firm as may be designated by the Financial Operations Principal may sign checks drawn on this account. Each month the FINOP will produce a reconciliation of this account.

Checks will be deposited by 12 o'clock noon of the business day following the day received. Funds disbursed via check will be forwarded to the appropriate mutual fund company, insurance company, custodian, third party administrator, or issuer of securities by noon of the business day following the day received. Funds being disbursed via wire will be transmitted by noon of the business day following the date of bank settlement, allowing up to two business days under bank requirements for check proceeds to be received in settlement by the bank.

Any outgoing check in an amount from \$10,000 to \$100,000 will be mailed via certified mail or forwarded via electronic transfer. Any check in an amount over \$100,000 will be sent via an overnight delivery service or electronic transfer. All other checks may be forwarded by first class mail. Regardless of method, all checks will be forwarded on the date issued unless otherwise indicated on attached documentation.

Under any circumstances in which funds from this account are being returned to a client, issuance of checks to third party accounts, outside entities, or alternate client addresses is prohibited.

7 Customer Account Records

For each account established with a natural person, information required to be collected will include name, street address, telephone number, tax identification number, date of birth, employment status (including whether the customer is an associated person of another FINRA member firm), annual income, net worth, and investment objectives.

For accounts with more than one owner, personal information is to be collected for each; however, their financial information may be reflected on a joint basis, and the record should reflect the investment objectives of the account rather than those of the individual owners.

This account record, which will be encompassed within the firm's New Account Application form, must be signed by the associated person responsible for the account and approved by the trade review principal.

An account record is *not* required in cases where the firm is not required to make a suitability determination as to the account, as, for example, in cases where previous clients of a newly hired registered representative are "block transferred" to the firm from the releasing broker/dealer. However, after the account has been opened, if the firm or its associated person engage in any activity that would require that a suitability determination be made (such as a reallocation of the client's account), the associated person must obtain the account record information before making such a recommendation.

Furnishing Account Records to Clients

A copy of the account record noted above will be furnished to clients at the time a new account is opened. Subsequently, a copy will be provided to the client for review a minimum of once every 36 months.

In addition, upon receiving notification of a change of name, address, or investment objective, the firm will confirm within 30 days by sending a corrected copy to the client's address of record. In the event of an address change, copies will be sent to both old and new addresses. A copy will also be furnished to the responsible associated person.

Forms used to provide account records to clients for review will provide a definition of investment objectives as understood by the firm. They will also prominently note that the client should make any necessary corrections and return to the firm as well as providing notification to the firm in the future should further changes occur.

Address Changes

In addition to providing confirmation of address changes to clients in the manner specified above, personnel who are responsible for entering address changes into the firm's client account management software are instructed to provide notification to the Compliance Officer in the event of address changes that involve relocation to a different state. The Compliance Officer will make a determination as to whether the relocation will necessitate additional registration on the part of the firm and/or the representative of record, will monitor any required registration updates, and will keep the accounting department updated to assure that commissions are paid only for transactions taking place under proper registration.

Name Changes

No change in the account name or designation may be made without authorization by the Compliance Officer or the Financial Operations Principal, each of whom is a qualified principal. Prior to giving authorization, he or she must be personally satisfied of the essential facts relevant to the case and indicate the approval in writing, with a copy to be maintained in the permanent client file.

Privacy Policy

The privacy of personal client information of all types, including consumer reports, will be protected using physical, electronic, and procedural safeguards.

Rooms and/or file cabinets containing client records, and rooms with computers housing personal client information, will be locked at the end of each business day. Access to clients records will be allowed only by supervisory personnel, administrative personnel who are directly responsible for the firm's maintenance and servicing of accounts, and, on an as-needed basis, other associated persons who need access to specific files to effectively perform their functions in servicing accounts. Any paperwork or documents of any type containing non-public client or employee information will be disposed of by shredding. Electronic information will be destroyed at the source or erased so that the information cannot be practicably read or reconstructed.

Electronic access to client information is password protected under a system monitored by the Chief Information Officer. Each representative is provided access only to their personal clients under a login protocol that requires them to reset their assigned password to a new password known only to them. Supervisory and administrative personnel are provided general access in conjunction with their broad supervisory, maintenance, and/or servicing responsibilities. Access to the firm's servers is protected by firewalls, and encryption technology is employed to protect wireless transmissions. No new technologies will be implemented without assessment and confirmation by the responsible personnel, in communication with the Compliance Officer, that they are appropriately capable of safeguarding client information.

In the event of outsourcing arrangements that provide outside parties with access to non-public information regarding clients or employees, the Compliance Officer or his/her designee will be responsible for verifying that the outsourcing firm has procedures to maintain the confidentiality and security of all non-public information. Signed documentation of review and approval will be retained in the compliance files. Any performance problems, customer complaints, or other red flags identified relating to the outsourcing firm will be investigated by the Compliance Officer and addressed to his or her satisfaction, with full consideration for the requirement of confidentiality and security in handling any non-public information. Remedies may include strengthened agreements, enhance monitoring, probation, and/or termination of the relationship, at the discretion of the Compliance Officer. In the event of termination, the Compliance Officer will monitor the recovery of all information entrusted to the outsourcing firm and will pursue any necessary remedies, including legal action, if information is not fully and promptly returned.

Verity Investments, Inc. will not permit the disclosure of any nonpublic personal information about its clients or former clients to anyone, except as permitted or required by law. As such, information may be shared within the Verity Group of companies (including Verity Financial Group, Inc.) in the interest of better serving clients and offering them selected products and services. Information may also be disclosed to companies with which we have joint marketing agreements, companies that help us conduct our business, and companies that perform administrative or other services on our behalf. Verity Investments, Inc. will not sell personal information to any third parties.

Except as noted above, we will not release any nonpublic personal information to anyone other than the client or someone authorized by the client in writing to receive such information. Information may only be released to clients by their assigned representative, supervisory personnel, and administrative personnel authorized to act in a servicing capacity. If someone claiming to be a client requests information from an authorized person who does not know the client personally, the authorized person will obtain sufficient identifying information, such as a social security number, to satisfy themselves that the individual requesting information is indeed the client or his/her authorized representative. (It should be noted that account information may not be released even to a spouse without the client's written authorization.)

All associated persons are to notify the Compliance Officer and/or the Financial Operations Principal in the event of any indication of a possible breach in security of non-public information. In the event of a breach or indication of a potentially impending breach in security of client information, the firm will, under the supervision of the Compliance Officer:

- Take immediate action to secure information from further access.
- Preserve and review files or programs that may reveal how any breach occurred.

- Promptly make a best assessment of the scope of the breach.
- Immediately notify clients in the most prompt and reliable manner feasible if their personal information is subject to a breach that poses material risk of identity theft or related harm.
- Notify the SEC and the FTC if identity theft is suspected.
- Notify law enforcement if the breach appears to potentially involve criminal activity.

Training regarding these privacy procedures will be conducted under the supervision of the Compliance Officer both at the time of hiring of new personnel (as part of their Compliance Orientation, which is documented in their personnel files) and annually as part of the Annual Compliance Meeting. Any employee violating any of these policies will be subject to disciplinary action.

Testing of these procedures will be conducted annually as part of the firm's Supervisory Control Procedures testing process, and modification will be made as warranted.

An initial copy of the firm's Privacy Policy is provided to clients with their New Account Application, and an additional copy is provided annually. Any amendments will be communicated to clients promptly.

Identity Theft Prevention Program

The Federal Trade Commission's Red Flags Rule requires that each "financial institution" or "creditor" implement a written plan to detect, prevent, and mitigate identity theft in connection with the opening or maintenance of "covered accounts."

- A firm is a **financial institution** if it provides, either directly or indirectly through a clearing firm, consumer "transaction accounts," which are accounts that allow account holders to make withdrawals for payment or transfer of funds to third parties by telephone transfers, checks, debit cards, or similar means. Since "consumer" is defined as an individual, a firm without individuals as clients would not be a financial institution under this definition.
- A firm is a **creditor** if it regularly extends, renews, or continues credit (such as margin) or arranges for its extension, renewal, or continuation.
- **Covered accounts** are any accounts that either (1) the firm offers primarily for personal, family, or household purposes and involve multiple payments (such as credit card, margin, checking or savings accounts), or (2) involve a reasonably foreseeable risk from identity theft to customers or the safety and soundness of the firm.

At present, the firm conducts only mutual fund, variable annuity, Section 529, and direct participation plan business by application direct to the issuers, with no clearing arrangements. As such, the firm does not have transaction accounts and does not maintain procedures independent of its existing privacy and customer identification procedures. However, the Compliance Officer will have responsibility to develop and implement additional procedures as appropriate in the event of a material change to the business that results in the firm becoming subject to the Red Flags Rule.

Cybersecurity

The firm has physical, electronic, and procedural safeguards to protect client information and other sensitive company data from cyberattack.

Governance - The firm regularly evaluates its cybersecurity risk in coordination with its annual Business Continuity Testing. The evaluation and testing is done by or under the direct supervision of the Vice President / Chief Information Officer. Results of testing are reported to the Chief Compliance Officer and, where pertinent, other members of senior management.

Access - Customer records data is stored and maintained by Readydoc, a cloud based document management company. For Readydoc and custodial data, the firm controls access through the issuance of several levels of authorizations based upon roles and responsibilities: in general, representatives have access to customer data for only their personal clients; supervisory, administrative, and operations personnel are provided more general access consistent with their specific roles and responsibilities; and senior management, including

senior compliance personnel, will generally have full access to all customer and firm data. For Readydoc, access is password protected under a system monitored by the Chief Information Officer, with requirement that each user resets their assigned passwords with a “strong” password known only to them, with a periodic password update cycle applied for access to customer data.

User access is terminated by a system administrator immediately upon termination of employment or for other reasons which may be deemed prudent by senior management.

Access to servers is protected by a Watchguard appliance firewall from outside intrusion. The firm’s wireless network is protected through a password protected WPA2 encryption protocol. No new technologies are implemented without assessment and confirmation by the responsible personnel, in communication with the CCO, that they are appropriately capable of safeguarding client information.

Retention of private customer information on laptops and other mobile devices is prohibited.

The email service is provided by Google for Business. Access to the email service directly through a browser interface uses “hyper text transfer protocol secure”, or through an Outlook client application that is password protected.

Email spoofing protection is implemented at Google to prevent the occurrence of email personations. Emails identified as such are move to quarantine for handling. Applications such as Constant Contact that intentionally impersonate must be manually released from the quarantine.

Data loss prevention:

The firm backs up its paper records, consisting of client account application and servicing documents, by scanning the incoming documents into electronic format on a daily basis. These electronic records are stored in an online document management system called ReadyDoc.

The firm backs up its server-based files daily using Veeam backup software on an enclosed storage array using RAID 5 which allows a single drive failure to be easily swapped out and replaced. The system is configured to maintain between 90 and 120 days of storage. At night, the backups are encrypted and transmitted offsite to CrashPlan PRO cloud servers. All internal Server drives are setup with RAID so that all data is written to 2 drives. Should an internal drive fail, the system can run off of the internal backup RAID drive. Should a double fault scenario occur in which multiple internal drives are impacted, the recovery time from an external backup would be less than 90 minutes. Duplicate copies of all customer account records, if needed, are available through the respective custodians.

The firm deploys a single on-site physical server device that runs MS Server 2012 R2 in Hyper-V mode as follows:

Verity0 Virtual Machine

- File Server
- DHCP Server
- Intranet Web Server
- LAN Management

Verity2 Virtual Machine

- Security Server
- Vipre Antivirus

SbServer Virtual Machine

- Previous Server from 2013
- Kept in Offline State
- Kept for local email Exchange contents

The firm uses a Watchguard appliance as the Gateway device. It provides the following capabilities:

- Intrusion prevention System (IPS)

- Preemptive layer of threat protection from SQL injections, cross-site scripting, and buffer overflows.
 - Continuously evolving signature database
- URL Filtering
 - Malicious site blocking
 - Instant notification on attempts to access blocked content
- Gateway Antivirus
 - Advanced multi-layered threat detection engines to block content at the gateway.
 - Real-time protection against known viruses, trojans, worms, spyware, and rogueware
- VPN Management
- Remote Access Management (RDP port forwarding)

Vendor Management

The Advisor conducts due diligence on all vendors providing outsourcing services, including review of contract terms relating to privacy and data security. The CCO or his/her designee is responsible for verifying that a vendor has procedures to maintain the confidentiality and security of all non-public information. The level of due diligence in regard to cybersecurity issues is based upon the degree to which the vendor's activities impact the security of client data or other sensitive firm data. These vendors are monitored on an ongoing basis, and annual due diligence reviews are documented in their files under the supervision of the CCO.

Training

All personnel are trained in cybersecurity procedures pertinent to their roles at the time of employment and are updated as changes occur. Each year, all personnel, including unregistered operations personnel, are required to attend the Advisor's Annual Compliance Meeting, which includes repetitive training and notices regarding cybersecurity procedures and cautions.

Incident Response

All personnel are to notify the Chief Information Officer or the Chief Compliance Officer in the event of any clear breaches or any suspicious activity. The CIO will take immediate steps to clarify the existence or non-existence of any legitimate concern, will make an assessment of the scope of the situation, and will take appropriate steps to promptly resolve any issues, providing notification to all affected parties as well as all operations and field personnel who can benefit from heightened awareness. Incidents and the steps taken in response will be documented by the CCO.

8 New Products

As a limited broker-dealer offering only mutual funds, variable annuities, Section 529 plans, and direct participation programs, the firm's only direct involvement with the sale of products outside the mutual fund/variable annuity arena is in the area of direct participation programs. There is otherwise no potential for direct sales of products such as asset-backed securities, distressed debt, structured notes, derivative products, and other unusually complex products.

Direct participation programs are in all instances considered by the firm to be new products, and specific procedures are maintained requiring formal review, approval, training of representatives, and careful monitoring of suitability and other pertinent factors throughout the sales process for each.

Absent the potential to offer for sale other types of new products, the firm does not maintain additional new product procedures at this time. However, we have on file a New Product Approval Process which we will implement in the event that we do begin to offer other types of complex products with proper regulatory approval in the future.

9 Trade Review

Each mutual fund, variable annuity, Section 529 Plan, or DPP application is to be submitted to the Compliance Officer or the Trade Review Principal that he may designate for approval and execution. All trades are placed on an application-way basis.

Each application or other form of customer order, such as an order ticket, must contain the name or designation of the account. No change in the account name or designation may be made without authorization by the Compliance Officer or the Financial Operations Principal, each of whom is a qualified principal. Prior to giving authorization, he or she must be personally satisfied of the essential facts relevant to the case and indicate the approval in writing, with a copy to be maintained in the permanent client file.

When account paperwork is received for processing, copies are made and date stamped to indicate the date received.

New Account Application Requirement

All new securities account applications must be submitted with a New Account Application form which is reviewed by a designated Trade Review Principal. Completion of this form reflects client receipt of all current disclosure documentation, including general disclosure which are incorporated into the New Account Application along with disclosures provided by prospectus and Form CRS. Any incomplete information on this form will, at the discretion of the trade review principal, result in rejecting the application and returning the application to the registered representative for amendment or completion.

The review includes examining for:

- ☐ Disclosure – sales of a mutual fund ‘B’ or ‘C’ class shares in accounts that would qualify for breakpoints should be questioned as should variable annuity sales for IRAs, 403(b)s and tax qualified retirement plans. Answers should be documented, and in some cases, a client statement may be requested before approval.
- ☐ Suitability – compare investment product objective with client’s stated overall risk tolerance as indicated on the New Account application. This may require a review of the client’s existing investments with the firm and/or consulting with the registered representative regarding any portfolio of investments held outside the firm. Any concerns, and their resolutions, are to be documented on the reverse side of the New Account application.
- ☐ Unsuitable diversification – review rationale for the use of multiple fund families and for the percentage of DPP’s in an investor’s portfolio.
- ☐ Selling dividends.
- ☐ Inappropriate switching – review Disclosure and Authorization form for switch sales for appropriate rationale; consult registered representative for any needed clarification and note reply on reverse side of the Switch Sale form. Pay particular attention to surrender charges incurred on variable annuity and/or fixed index annuity switches relative to the benefits and expenses of the new contract, using the Variable Annuity Suitability form where pertinent as described under “Variable Annuities” below..
- ☐ Sales just beneath breakpoints – any lump sum investment within 20% of a breakpoint should be discussed with the registered representative and noted on the reverse side of the New Account application.
- ☐ Insuring that Letters of Intent were obtained, and that
- ☐ Rights of accumulation were properly offered – when receiving multiple applications on an individual or their family concurrently, review for proper referencing of reciprocal new pending accounts.
- ☐ Proper registration by both the firm and the representative in the client’s state of residence.
- ☐ Inclusion of a street address for the client.
- ☐ Proper completion of customer identification requirements, including request for non-documentary verification where warranted.
- ☐ Identification of clients who may be employed by another broker/dealer and notification of the Compliance Officer of the client’s firm in such a case.

- ❑ In general, being sure all appropriate segments of the application paperwork are complete and appear reasonable.

The Compliance Officer/Trade Review Principal's signature at the bottom of the New Account application acknowledges this review process.

Exceptions: A New Account Application form will not be required in the case of a ROTH Conversion IRA when the client is merely converting an existing IRA previously registered on the books of Verity Investments, Inc., via In-Kind exchange, to a new ROTH Conversion IRA without any changes in fund allocation. Also, the requirement is waived if a client is merely re-directing current contributions from a Traditional IRA previously registered on the books of Verity Investments, Inc. to a ROTH Contributory IRA without any changes in dollar amounts invested or fund allocations. For both situations, the mutual fund application will suffice as complete paperwork.

Variable Annuities

Registered representatives are not to recommend the purchase or exchange of a variable annuity unless there is reasonable basis to believe that the transaction is suitable in accordance with Rule 2310. In particular:

- The client must be informed, in general terms, of the various features of variable annuities, including potential surrender period and surrender charge, potential tax liability in the event of redemption prior to age 59 ½, mortality and expense fees, investment advisory fees, features and expenses of riders, insurance and investments components, and market risk. To provide evidence that the client has been appropriately informed of these features, applications for purchase of a variable annuity must be accompanied by a signed copy of the Variable Annuity Disclosure document;
- The client must be in a position to benefit from the features of variable annuities in general;
- The particular variable annuity as a whole, including investment subaccounts and product enhancements or riders, is suitable for the particular client based upon his or her personal circumstances.

The importance of the suitability determination is heightened in the event of an application for an exchange of a variable annuity. In this event, consideration must address whether

- The client will incur a surrender charge or lose existing benefits in the surrender of the existing contract, and whether he or she will be subject to a new surrender period, increased fees or charges, and/or charges for riders or other product enhancements as a result of the purchase of the new contract;
- The client is in a position to benefit to a sufficient extent from new product enhancements and improvements;
- The client has had another variable annuity exchange within the preceding 36 months. If so, the Trade Review Principal will notify the Compliance Officer, who will address particular scrutiny to all aspects of both the current and previous transaction and will, at a minimum, contact the client personally to discuss the pros and cons if the transaction otherwise appears to meet reasonable suitability standards.

Prior to recommending the purchase of a variable annuity, a registered representative shall make reasonable efforts to obtain, at a minimum, information concerning the client's age, annual income, financial situation and needs, investment experience, investment objectives, intended use, time horizon, existing assets, liquidity needs, liquid net worth, risk tolerance, tax status, and any other information that might be deemed useful in making a suitability determination. By completing the Verity Investments, Inc. New Account Application and the Variable Annuity Suitability form, the registered representative will demonstrate that the necessary information has been acquired and a favorable determination of suitability made. Similarly, by signing off on the New Account Application, the trade review principal will indicate his or her verification that adequate information has been provided and that they have verified and approved the general suitability determination as well as the suitability of the initial investment subaccount allocations.

All 1035 exchanges will be reported to the Compliance Officer, who will maintain a log of these transactions, including date, registered representative, and client name. Patterns of replacement activity by individual representatives, which are to be identified by the trade review principal, will result in heightened scrutiny of all of their securities transactions for general suitability and a consideration for the best interests of the clients. Such individuals receive additional training regarding the comparative value of variable annuities and other investment options provided by the firm. Subsequent to notice and training, attempts to execute exchanges that are deemed questionable or inappropriate will result in suspension of the individual's authority to sell variable annuity products for a period to be determined at the discretion of the Compliance Officer.

Annual compliance training will encompass all procedures for both registered representatives and principals.

Fixed Index Annuities (formerly called Equity Indexed Annuities)

Any fixed index annuity classified as a security will fall under the same procedures as other securities products offered through Verity Investments, Inc.

However, most fixed index annuities are not classified as securities. The sale of fixed index annuities which are not securities will be treated as an Outside Business Activity, which requires prior notification to Verity Investments, Inc. along with any pertinent amendments to your Form U4.

The following additional procedures will apply:

- Verity Investments, Inc. must provide written approval of any fixed index annuity product prior to sale by a registered representative of the firm. The Compliance Officer will review products for eligibility for Section 3(a)(8) exemption from securities registration on a facts and circumstances basis. The review will include the following:
 - The product must be issued by a company subject to state insurance regulation.
 - The insurer must assume the investment risk.
 - The product may not be marketed primarily as an investment.
- If the liquidation of registered securities is being recommended, the proposed sale must be submitted to Verity Investments, Inc. for a suitability review and approval.

Section 529 Plans

A Section 529 Plan is a tax-advantaged savings plan designed to encourage saving for future education costs. Section 529 Plans, legally known as "qualified tuition plans," are sponsored by states, state agencies, or educational institutions and are authorized by Section 529 of the Internal Revenue Code.

In addition to the considerations to be addressed in any recommendation or transaction, a registered representative offering Section 529 Plans must address certain other considerations unique to Section 529 Plans:

- Since funds will typically be withdrawn beginning with the beneficiary's entry into college, most often at age 18, suitability of share class selection must carefully consider the ***age of the beneficiary*** in addition to potential breakpoint considerations. In general, Class A shares would generally be expected to be more suitable for younger beneficiaries due to the number of years the investment would be held at a lower charge after the front-end load, while Class C shares would be expected to be more suitable for older beneficiaries due to the shorter period of investment. However, the fund companies offering Section 529 Plans vary in their application of sales charges and breakpoints and may charge differently for 529 Plan share classes as opposed to their standard share classes. Registered representatives must consider all factors and be prepared to provide their analysis to Compliance upon request.
- Some states offer unique tax treatment or other benefits to residents of their state who use the state's plan. Registered representatives must be aware of any state-specific benefits that may be

applicable to any potential client and must discuss these with the client as part of any consideration for the use of a different state's plan.

- A copy of the official Program literature of the pertinent state plan must be provided to the client no later than the time of application.
- Interests in Section 529 savings plans are considered municipal securities under the federal securities laws and are considered municipal fund securities under MSRB rules. MSRB Rule G-10 requires the following notifications to 529 Plan clients: i) notification of Verity's registration with the SEC and MSRB; ii) the MSRB's website address; and iii) the availability of informational brochures for Section 529 Plan clients.
- Compliance with each of the above provisions will be documented at the time of submission of any application for a Section 529 Plan account.

Accounts for Senior Investors

At the time of application for an account and at any time when account information is being updated, all investors will be asked to provide the name and contact information for a trusted contact person, who may be contacted by associated persons of the firm to address possible financial exploitation, to confirm the specifics of current contact information, health status, or the identity of any legal guardian, executor, trustee or holder of a power of attorney.

Accounts for senior investors in general, and particularly for investors over 75 years of age, will be scrutinized with particular care for proper suitability. The trade review principal will confer with the Compliance Officer prior to approval of accounts for investors over 75 years of age which involve:

- Investment objectives more aggressive than "Income.
- Illiquid investments.
- Guardianship or conservatorship accounts.
- Variable life insurance.
- Variable annuities.

If such an application is deemed acceptable after suitability review, any objectives, products, or features which may be considered questionable for seniors under normal circumstances should be explained in writing on the New Account Application or comparable document and initialed by a principal experienced in trade review.

Seminars directed specifically toward seniors must be approved by the Compliance Officer, with attention to content and/or promotional materials which may reflect exaggerated claims of safety, scare tactics, material omissions regarding investment strategies, conflicts of interest, or misleading credentials by sponsors or participants. The Compliance Officer will further monitor sales submitted by representatives involved in any such seminar for signs that any of the firm's guidelines regarding seniors have not been upheld.

Modifications to Client Accounts

Changes to a client account that affect either: 1) the fund allocation being used, or 2) the dollar amounts being invested on an automatic/salary deferral arrangement, require a client signature. This signature evidences discussion of fund suitability information and acknowledges the requested change. The change may be made by phone after getting verbal authorization from the client, but a written confirmation must still be sent to the client for their signature. A copy of the signed authorization, initialed by a Trade Review Principal, is filed in the permanent client files.

Employees or Representatives of other Broker/Dealers

The New Account form will also be reviewed to identify if the client is employed by another broker/dealer. Verity Investments, Inc. will use reasonable diligence to determine that the execution of transactions on such customer's behalf will not adversely affect the interests of the indicated employer. The Compliance Officer accepting the account will send a copy of the new account form to the Executive Representative or an

appropriately designated principal of the employer firm. A copy of the cover letter will be placed in the client's permanent file.

Subsequent Checks and Automatic Investments

Once an account is open, a client may make subsequent investments into that account via check. If the client provides a check to a registered representative, the representative will prepare an Order Ticket for submission to the Trade Review Principal along with the check. The Trade Review Principal must approve the sale. A copy of the Order Ticket and check is added to the Checks Received/Forwarded Blotter, and the original is forwarded to the appropriate issuer. The pertinent information is entered in the Daily Sales Blotter and tracked to completion.

Account Applications by Verity Investment's Employees/Representatives

Any application for a personal securities account from a registered representative is subject to the same requirements as a client application.

Customer Payments

The Trade Review Principal will also ensure any check submitted with an application is made payable to the fund company or issuer in accordance with the instructions in the prospectus. Any check made payable to Verity Investments, Inc. will, at the option of the Financial Operations Principal, (1) be returned to the customer, along with instructions on the proper payee, (2) endorsed over and forwarded to the fund sponsor or issuer, or (3) deposited into the firm's "Special Account for the Exclusive Benefit of Customers" and handled according to the procedures below.

All customer checks are to be forwarded to the appropriate party within one business day of receipt at the home office. Any check from \$10,000 to \$100,000 will be mailed via certified mail or forwarded via electronic transfer. Any check in an amount over \$100,000 will be sent via overnight delivery service. All other checks will be forwarded by first class mail.

Transmittal of Funds or Securities to Third Party Accounts, Outside Entities or Alternate Addresses

Verity Investments, Inc. does not maintain custody of customer funds or securities and thus does not typically engage in any of these activities. The only exception is that the firm does process customer funds through its Special Account for the Exclusive Benefit of Customers. Applicable procedures pertaining to that account are covered in Section 5. Procedures for any other such activities would be required prior to their commencement.

Acting as Trustee, Administrator, Executor, Guardian or the Like in a Customer Account

A registered representative who intends to open an account over which he/she will exercise direct control as trustee, administrator, executor, guardian, custodian, or the like must obtain prior written approval from the Compliance Officer unless the account will be for the sole beneficial interest of themselves or their immediate family members. The approval request must be accompanied by a copy of the document(s) identifying the representative in the specified role (i.e. trustee, administrator, etc.). The Compliance Officer will disclose to individuals with beneficial interest in the account and other related individuals, as appropriate, the dual roles to be occupied by the registered representative and the potential conflict of interest this poses, with particular attention to dual compensation, where applicable. Copies of this disclosure will be retained in the client file. The Compliance Officer may elect to assign direct representation of the account to another registered representative within the firm. Account activity will be reviewed monthly and documented by the signature of the Compliance Officer on account activity statements.

Private Securities Transactions by Registered Representatives

An associated person seeking to participate in a private securities transaction as an investor must provide a prior written request to Verity Investments, Inc. This requirement applies also to any private securities transaction proposed by the associated person's spouse, dependents, other members of their household, or others who may be under their direct or indirect control. Upon receipt of the associated person's request, the Compliance Officer will provide prompt written acknowledgement of either approval or disapproval. The Compliance Officer may also, at his/her discretion, impose specific conditions that must be followed in

connection with the individual's participation. Further, the associated person will be required to promptly notify the Compliance Officer of any changes in participation, including changes in the size of the investment or changes in the type of business or services related to the transaction, among others.

Records of the notification and the firm's response will be maintained by the Compliance Officer in a private securities transaction file as well as in the associated person's file.

10 Blotters

Checks Received and Forwarded Blotter

All checks received by Verity Investments, Inc. from a client for the purpose of investment are logged on the Daily Submitted Sales Blotter. A copy of the check is date stamped and filed in the Checks Received and Forwarded Blotter. This Blotter is in the form of a monthly filing system kept in chronological order as a part of the Daily Submitted Sales Blotter.

The Checks Received and Forwarded files contain the following information:

- ☐ Name of person from whom received and the intended account number, if known;
- ☐ To whom the check was made payable;
- ☐ The amount of the check;
- ☐ The date received;
- ☐ The date forwarded to mutual fund sponsor, variable insurance sponsor, issuer, or escrow agent;
- ☐ To whom forwarded and by what method;
- ☐ An indication if an error letter was generated to the customer.

Check copies and/or the applications to which they are attached are stamped showing the date of receipt, and provided to the Executive Representative for review each day as an attachment with the Daily Submitted Sales Blotter.

All checks are forwarded on the date received via First Class mail unless indicated otherwise in the Daily Submitted Sales Blotter.

Generally, all checks are forwarded to the party made payable on the face of the check. However, if the check was made payable to a third party by way of endorsement, the check is forwarded to the endorsed party. An Order Ticket may accompany the copy of the check showing more detailed forwarding instructions.

Checks made payable to Verity Investments, Inc. may be deposited in the Special Account for the Exclusive Benefit of Customers and issued to the appropriate issuer or custodian, or they may be endorsed over to the appropriate issuer or custodian, at the discretion of the Financial Operations Principal. Documentation is maintained to indicate how those funds were disbursed.

All checks are received from the party named on the check, unless indicated otherwise. Any cashier's checks received must indicate the party from whom received. If the check is made payable to a third party by way of endorsement, the check was received from the party made payable on the face of the check (the payee). Any checks issued by an institution and made payable to a custodian FBO an individual client, are considered to be received from the named individual and not the issuing institution. Such checks are forwarded to the named custodian.

Copies of institutional checks with retirement plan participant list bill contributions for multiple clients are retained in chronological order. Documentation showing disbursement of funds is attached.

Daily Sales Blotter/Production Log

Incoming client account paperwork is "date stamped" within the firm's operational system and forwarded to the designated Trade Review Principal, who approves the transaction as evidenced by his/her signature on the New Account Application or other account paperwork. The New Account Application and/or any incoming checks are then logged in a Daily Sales Blotter/Production Log. A report is generated daily for review by the Designated Principal, as evidenced by his/her initials. This ledger contains a listing of all paperwork submitted and mailed each day.

All client paperwork is scanned in an imaging system, and a full physical copy of all submitted paperwork is retained in permanent client files.

Processed paperwork is submitted daily to the appropriate issuer or custodian via U.S. Mail or other delivery service. Tracking information is recorded in the Daily Submitted Sales Blotter/Production Log when applicable.

Purchase & Sales Blotter

The Purchase & Sales Blotter is compiled by agency management software using a combination of 1) electronic data transfer; and 2) manual data entry. Downloads of transaction information are performed weekly and merged into the agency management software.

Paper confirmation statements received from mutual fund sponsors are filed and retained among the firm's records.

Permanent Client File Maintenance

A full copy of all paperwork pertaining to a sale is kept in a client file. These client files are available for review by the Executive Representative.

11 Reviewing Account Activity

To supplement the reviews conducted by the Trade Review Principal when each application is submitted and to provide ongoing assessment of account activity, the Compliance Officer or his designee will review the firm's transactions on a monthly basis with particular attention to redemptions, transfers, and reallocations. The reviews are for the purposes of detection and prevention of inappropriate activity. In addition to maintaining an ongoing awareness of suitability, these reviews will specifically target:

- ☐ Unauthorized Redemptions
- ☐ Excessive Trading by a customer
- ☐ Transactions inconsistent to the client's investment objectives and overall suitability
- ☐ Employee-related transactions

At month-end, a Trade Report (aka Purchase & Sales Blotter) is generated using the client management software and is filed as a summary reference to complement the paper confirmations received over the course of the month. This blotter records all transaction-related information from the respective mutual fund/variable annuity companies. The Compliance Officer, or designee, will review the Purchase & Sales Blotter for the purposes indicated above. Documentation will be provided by the Compliance Officer's notes and signature on the blotter, which will be filed with the monthly compliance records.

Annual statements of client account activity provided by mutual fund/variable annuity companies are retained for three years. (Each year, quarterly statements are kept until the next quarter's statements have arrived.) These records are used as the official account activity records.

Errors

If an error is discovered in the transaction review process or brought to attention by a registered representative, the Financial Operations Principal will determine the cause of the error and will assess any losses caused by the registered representative against the registered representative's commissions.

12 Supervision of Branch and Non-Branch Locations

Account Application Paperwork Submitted to Field Offices

A branch office is defined as any location where an associated person regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any security, or that is held out as such. Branch offices will be registered with FINRA via the CRD system under the supervision of the Chief Compliance Officer.

Securities account applications and customer payments submitted to a branch office are to be reviewed by the designated person in charge for that office for completeness and accuracy. Once the sale has been reviewed by the designated person in charge, it is entered into the Branch Office Submitted Sales Blotter.

They are then to be mailed or electronically submitted to the home office by the next business day for final trade review. If no designated trade review principal is going to be available for a period of more than one business day, representatives are to be instructed to forward paperwork directly to the home office for processing. Copies should be retained for the branch office's person in charge.

Registered representatives who are too remote from the branch office to which they report to submit applications within one business day of completion are to forward their applications and customer payments to the branch office within one business day. Alternatively, they may forward directly to the home office; if they forward directly to the home office, they are also to provide on the same day a notification to their branch office covering all the items on the Submitted Sales Blotter. The person in charge of the branch office should enter these sales into the Submitted Sales Blotter on the day of receipt in the branch office with the notation that they were forwarded directly to the home office by the registered representative.

Full copies of all paperwork are to be maintained by the branch office and made available for review during supervisory inspections.

Recordkeeping

In addition to the records required above, additional records are required to be maintained as specified on the "Branch Office Inspection Checklist" (or the "Non-Branch Location Checklist", if appropriate) that follows. All records are to be maintained for a minimum of 2 years.

Each branch office which at any time solicits the sale of Section 529 College Savings Plans must also maintain a copy of the MSRB Rule Book or maintain electronic access to the rule book at www.msrb.org and make these rules available upon request by any customer.

Annual Inspections

An on-site inspection, including testing and verification of policies and procedures, of each branch location will be conducted by the Compliance Officer or designee at periodic intervals. Any individual conducting inspections will have adequate seniority and experience to understand and be able to effectively evaluate the activities specific to the business of each office. For branches which supervise non-branch locations, inspections will be conducted no less than once each calendar year. For branches which do not supervise non-branch locations, inspections will be conducted no less than once every three calendar years. Non-branch locations with only one registered person and no unusual or complex business activity will be inspected no less than once every five years. Non-branch locations with only one registered person and no unusual business activity whose primary business is investment advisory business through a separate RIA and who submit new mutual fund or variable annuity applications on no more than a sporadic basis will be inspected every 10 years unless there are risk factors warranting more frequent inspection, at the discretion of the CCO.

The Compliance Officer will consider the risk factors specific to each office in planning the inspections and establishing the inspection schedule. In general, the risk profile of the firm business, based upon the nature and volume of product sales and the centralized manner of operation and supervision, is very low. However, the presence of higher risk factors for specific locations, including such factors as excessive sales of variable annuities, excessive sales of direct participation programs, individuals with a disciplinary history, or individuals who previously worked at a firm with a disciplinary history, may trigger more frequent

inspections, unannounced inspections, and/or heightened supervision. In addition, certain 'red flags' could trigger unannounced visits as a matter of procedure. Among the red flags are:

- significant numbers of customer complaints
- excessive liquidations or variable contract replacements
- financial problems by the person in charge of the office

Inspections may include review of office files and computers, and interviews of representatives and/or administrative personnel. The inspection will be conducted using the Branch Office Inspection Checklist as both a guide and a permanent record. Any deficiencies and the disciplinary action taken will be noted, including a record of the correction of those deficiencies. A copy of the Inspection Checklists, signed by the Compliance Officer or his designee, will be maintained in the firm's compliance files.

Any "red flags" identified during an inspection, including in particular indications of irregularities in a customer's account, will be further investigated for inappropriate activity.

The Compliance Officer will maintain lists of all branch and non-branch locations.

Branch Office Inspection Checklist

Business Cards and Stationery:

- ☐ Approved by Verity.

Sales Literature and Hypothetical Illustration Software:

- ☐ Up-to-date
- ☐ Nothing other than Verity-authorized literature
- ☐ File of advertising/sales literature approvals

Client Files:

- ☐ Accurate (spot checked for deficiencies)
- ☐ Complete, including copies of Verity New Account application, fund or custodian application, any transfer forms, and other appropriate paperwork
- ☐ Locked or electronically secured during non-business hours or when otherwise unsupervised

Submitted Sales Blotters:

- ☐ Correct, up-to-date

Handling of client checks

- ☐ Copies of all client checks, including date received and forwarded and manner in which forwarded
- ☐ Procedure in place for securing checks until forwarding to the home office

Policies & Procedures Manual, Supervisory Procedures Manual and/or Compliance Manual, as pertinent:

- ☐ Copies available for review or illustration of electronic access

Incoming Mail:

- ☐ Procedure for opening and review by field office principal of all in-coming mail for the purpose of identifying any customer complaints, securities or customer funds
- ☐ File with original copies of all in-coming customer correspondence

Outgoing Correspondence:

- ☐ Files of all physical outgoing customer correspondence reflecting home office approval (may have both physical and/or electronic files depending on which medium of correspondence was approved)

Customer Complaints:

- ☐ Files for customer complaints, kept by representative (including copy of original written or electronic complaint, full correspondence, notes of conversations, final disposition)

Corporate Identification:

- ☐ Verify that "Verity Investments, Inc." does not appear on signs, office doors, building directories, etc. unless registered as a branch office with FINRA
- ☐ Verify that any phone directory listings of Verity Investments, Inc. contain the home office address and phone number

Products / Sales Methods:

- ☐ Meet with selected individual reps to discuss what products they are selling and sales methods being used

Personnel Files

- ☐ Files for each registered representative associated with the office containing copies of employment contracts and compensation agreements, along with records of any customer complaints or disciplinary actions

Registered Principals / Persons

- ☐ Records of principals or other persons responsible for recordkeeping and compliance procedures for the office
- ☐ List of persons who can explain all compliance records maintained at the office.

Outside Business Activities

- ☐ Review business cards, letterhead, promotional materials, office signage, etc. to verify that the separation of business between the outside activity and the business of the firm is clear.
- ☐ Review office for any indication of unauthorized outside business activity and any potential conflict of interest posed by outside business activities.

In reference to inspection requirements under Rule 3010(c)(2), the firm's policies and procedures require maintenance of books and records (other than copies noted above), supervision of customer accounts managed by branch office managers, validation of changes in customer address or account information, and supervision of fund transmittals between customers and third parties to be conducted at the home office. The firm does not accept cash or securities under any circumstances. The firm will not implement any variation from these practices without previously establishing requisite supervisory policies and procedures.

Notes, Observations or Comments:

Date of Inspection: _____

Signature of Inspector: _____ Print Name: _____

Signature of Field Principal: _____ Print Name: _____

Non-Branch Location Inspection Checklist

Business Cards and Stationery:

- ☐ Produced by Verity

Sales Literature and Hypothetical Illustration Software:

- ☐ Up-to-date
- ☐ Nothing other than Verity-authorized literature
- ☐ File of advertising/sales literature approvals

Client Files:

- ☐ Accurate (spot checked for deficiencies)
- ☐ Complete, including copies of Verity New Account application, fund or custodian application, any transfer forms, or other appropriate paperwork
- ☐ Locked or electronically secured during non-business hours or when otherwise unsupervised

Handling of client checks

- ☐ Copies of all client checks, including date received and forwarded and manner in which forwarded
- ☐ Procedure in place for securing checks until forwarding to the home office

Incoming Mail:

- ☐ Client correspondence should be directly exclusively to the home office or appropriate branch office. Verify that this procedure is being followed.

Outgoing Correspondence:

- ☐ Files of all physical outgoing customer correspondence reflecting home office approval (may have both physical and/or electronic files depending on which medium of correspondence was approved)

Customer Complaints:

- ☐ Files for customer complaints (including copy of original written or electronic complaint, full correspondence, notes of conversations, final disposition)

Products / Sales Methods:

- ☐ Discuss what products they are selling and sales methods being used

Outside Business Activities

- ☐ Review business cards, letterhead, promotional materials, office signage, etc. to verify that the separation of business between the outside activity and the business of the firm is clear.
- ☐ Review office for any indication of unauthorized outside business activity and any potential conflict of interest posed by outside business activities.

In reference to inspection requirements under Rule 3010(c)(2), the firm's policies and procedures require maintenance of books and records (other than copies noted above), supervision of customer accounts managed by branch office managers, validation of changes in customer address or account information, and supervision of fund transmittals between customers and third parties to be conducted at the home office. The firm does not accept cash or securities under any circumstances. The firm will not implement any variation from these practices without previously establishing requisite supervisory policies and procedures.

Notes, Observations or Comments:

Date of Inspection: _____

Signature of Inspector: _____ Print Name: _____

Signature of Field Principal: _____ Print Name: _____

13 Customer Complaints

The Compliance Officer will maintain, in separate files by representative, records of all written and electronic customer complaints containing the original written complaint along with the following:

- ☐ Identification of complainant, including name, address, and account number;
- ☐ Date complaint was received;
- ☐ Identification of any other registered representative or associated person named in the complaint;
- ☐ A general description of the complaint; and
- ☐ The disposition of the complaint.

If the complaint alleges misconduct on the part of the registered representative, a copy of the complaint and its disposition should be placed in the representative's personnel file.

If the company receives a customer complaint directly from a customer and determines that the registered representative servicing the account was aware of the complaint but failed to notify the company, immediate disciplinary action will be taken.

The Compliance Officer will file customer complaint reports electronically to FINRA on a quarterly basis pursuant to Conduct Rule 3070.

In the event of a complaint in reference to Section 529 college savings plans, which are considered municipal securities, the Compliance Officer will provide the customer with a copy of the Municipal Securities Rulemaking Board's Investor Brochure.

14 Hiring Procedures / Personnel Files / Compensation Records

All persons who are engaged in the securities business for the firm, including the functions of supervision, solicitation or conduct of business in securities, are designated as representatives and shall be registered as such with FINRA. Before their registrations can become effective, they must pass a qualification examination required by FINRA.

Form U-4 and Qualifications

After completing the firm's interview process, every candidate must complete and sign the following paperwork:

- ☐ Verity Financial Group, Inc. Confidential Application
- ☐ Verity Financial Group, Inc. Basic Agreement
- ☐ Read the Verity Financial Group, Inc. Operating Guidelines
- ☐ Form U-4 and Fingerprint Card

The U-4 will be reviewed for completeness and accuracy by the Compliance Officer or his/her designee before entering into the CRD system. If the U-4 contains information pertaining to clients as part of the disclosure information provided, the client's name will appear only in the customer name field and nowhere else on the disclosure page, and sensitive non-public information such as social security number and account numbers will not be included.

When a U-4 is amended electronically via the CRD system, a copy of the amended filing is to be signed by the Executive Representative or his designee and filed in the representative's personnel file.

Fingerprint Requirement

Federal regulations (SEC Rule 17f-2) require that all registered persons and persons having access to the keeping, handling or processing of securities, monies, or original books and records submit fingerprint records to the Attorney General of the United States through FINRA. Each applicant for FINRA registration as well as any employee having access to firm books and records shall submit fingerprints on the form provided by the company when submitting the Form U-4. Fingerprinting must be conducted and signed off at a local law enforcement office. The Executive Representative or an appropriately designated principal is responsible for forwarding the fingerprint record to FINRA for processing.

Background Check

FINRA Rule 3110(e) requires that each member firm ascertain by investigation the good character, business reputation, qualifications and experience of an applicant before the firm applies to register that applicant with FINRA and before making a representation to that effect on the application for registration. Furthermore, firms are required to complete the investigation process prior to filing a Form U4. The Executive Representative or an appropriately designated principal must screen the applicant's overall regulatory history by using available information, including but not limited to review of prior responses on forms U-4 and U-5. Perform authorized searches of the CRD system to review for customer complaints, disciplinary actions, and/or arbitrations. A principal will also contact all previous employers for the past three years either in writing or by phone and document the names of persons contacted, the dates of contact and results of contact. Additionally, the principal will conduct (via third-party service provider) a national search of reasonably available public records in order to verify the accuracy and completeness of the information provided by the applicant. Public records include, but are not limited to general information, such as name and address of individuals, criminal records, bankruptcy records, civil litigations and judgments, liens, and business records. Any derogatory information resulting from this background check will be grounds for considering the rejection of the candidate. After satisfactory determination of the good character, business repute, qualifications and experience of the candidate, the designated principal shall sign the Form U-4 and file it electronically via FINRA CRD system.

For all personnel, including clerical personnel and other personnel who are not registered, a principal under the supervision of the Compliance Officer will screen for statutory disqualification and will use an independent service for background screening purposes. The firm will not employ statutorily disqualified

individuals under normal circumstances. However, the firm may make an exception based on facts and circumstances, at the discretion of the Chief Compliance Officer. The individual will be placed on heightened supervision, with the terms of the heightened supervision to be based upon the specific factors behind the individual's disqualification. The rationale for such an exception and the specific terms of the heightened supervision will be retained in the individual's personnel file.

Obtaining Form U-5, If Applicable

If the applicant has worked for another registered broker/dealer and has an active securities license, the following steps will be taken:

- ☐ Obtain a current U-5 Form from the previous employer
- ☐ Conduct a specific inquiry into the reasons for leaving that employment

Successful Appointment to Verity Investments, Inc.

Upon successful completion of registration exams and other requirements, the following paperwork will be required:

- ☐ Verity Investments, Inc. Registered Representative Agreement
- ☐ Registered Representative Attestation
- ☐ Prohibited Practices Checklist

At this time it will also be necessary to provide the candidate with:

- ☐ A copy of the Compliance Manual
- ☐ Authorization to order business cards
- ☐ Designation of Principal
- ☐ Commission schedules and Commission Operating Guidelines, copies of which will be maintained in the representative's personnel file

Authorization to Solicit

Employees are specifically prohibited from soliciting any kind of securities business until registration is made effective for both the firm and the registered representative by FINRA and by the state in which they expect to do business. This also applies to anyone who is transferring from another broker/dealer.

As an exception, a registered representative may be approved by the Compliance Officer to solicit under the terms of a *de minimus* exemption. Such an exception must specify the number of clients and/or number of transactions approved. The Compliance Officer will monitor the activity of all clients in all *de minimus* states to be sure the firm has not exceeded the terms of the exemption.

Compensation Records

Commission statements will be maintained by the Financial Operations Principal for each associated person listing each purchase and sale of a security attributable, for compensation purposes, to that person. The statement will list the amount of compensation earned or accrued for each transaction, including commissions, concessions, overrides, and any other compensation.

Non-monetary compensation opportunities, along with a description thereof, will be recorded if directly related to sales, whether or not the required goals are actually achieved.

Copies of any Continuing Commission Agreements, which must be agreed to and signed prior to termination of employment, will be kept in the personnel files of the respective representatives.

Employee Accounts Carried by Another Broker/Dealer

Verity Investments, Inc. will maintain a file for brokerage accounts held by employees at another broker/dealer. The duplicate statements from such accounts, having been requested by the employee, will be reviewed by the Executive Representative, initialed and dated, and maintained in centralized location for regulatory review.

Outside Business Activities

Before engaging in any outside business activities not currently disclosed on the U-4, representatives must disclose such activities in writing to Verity Investments, Inc. and must also amend their U-4 accordingly. Outside business activities will be reviewed by the Compliance Officer for any indication of involvement with securities or any other potential conflict of interest. Evidence of review and approval will be the Compliance Officer's signature on any approval letters and/or initials on the Registered Rep Attestation form.

The firm is affiliated with an investment advisory firm, Verity Asset Management, and registered representatives of the firm are in most instances also investment advisor representatives of Verity Asset Management. The broker-dealer and the investment advisor are under common control, including the same management and common compliance oversight and supervision. As such, all activities of registered representatives in their role as investment advisor representatives of Verity Asset Management - including but not limited to new account forms and agreements, advertising and sales literature, and client statements are -comprehensively supervised the firm.

Termination of Employment

When a registered representative is terminated by the company or resigns from the company, all manuals, books, client records, and other company property must be returned to the Executive Representative or an appropriately designated principal. All accounts due the company must be paid immediately in full. All bills or accounts payable that might have been incurred must be resolved and payment made.

A Form U-5 providing notification of the resignation or termination will be signed by the Chief Compliance Officer or his designated principal. FINRA must receive the Form U-5 within 30 days of termination. A copy of the Form U-5 will also be provided to the terminated employee by the designated principal.

The Chief Compliance Officer or his designated principal will file an amended Form U-5 with the FINRA if the Company learns of facts or circumstances causing any information set forth in the Form U-5 to become inaccurate or incomplete.

15 Prevention of Misuse of Material Nonpublic Information (Insider Trading)

Verity Investments, Inc. forbids any officer, director or employee from trading, either personally or on behalf of others, on material nonpublic information or communicating material nonpublic information to others in violation of the Insider Trading and Securities Fraud Enforcement Act of 1988. This conduct is frequently referred to as 'insider trading.' This policy applies to every officer, director and employee and extends to activities within and outside their duties at the Company. Employees must attest in writing that they have read and agree to abide by these policies and procedures upon employment and at the time of each Annual Compliance Meeting, which will include training on the firm's Insider Trading Procedures. Any questions regarding the policy and procedures should be referred to the Compliance Officer of Verity Investments, Inc.

The firm does not conduct investment banking activities and thus does not prepare restricted or watch lists.

Any employee who opens an account or places an order for the purchase or sale of securities with any other broker-dealer must notify the other broker-dealer of his or her employment by the Verity Investments, Inc. and request in writing that duplicate confirmations and statements be sent to Verity. This policy also applies to accounts in the name of the employee's spouse, immediate family members living in the employee's household, or any other account under the employee's direct or indirect control. The Compliance Officer will conduct a monthly review of these employee account statements, including account statements received from other broker-dealers maintaining accounts for employees, for trading in securities where material, non-public information may have been available to the employee. His initials on the account statements evidence his review. Accounts maintained by the Compliance Officer will be similarly reviewed and documented by a qualified third party (currently William Hopwood) who reports directly to members of senior management other than the Compliance Officer.

Verity Investments, Inc. does not currently maintain any proprietary accounts.

Supervisory Procedures

The implementation and maintenance of these policies and procedures against insider trading will be the responsibility of the Compliance Officer as follows:

Prevention of Insider Trading.

To prevent insider trading the Compliance Officer will:

- ☐ Design an appropriate educational program and provide educational materials to familiarize officers, directors and employees of the company's policy and procedures. The educational program and materials will be provided to each new employee upon hiring and to each employee at the annual representative interview. Upon hiring, and at least annually thereafter, each employee must acknowledge in writing that he or she has received and understands these policies and procedures.
- ☐ Answer questions regarding policy and procedures.
- ☐ Review on a regular basis and update as necessary the policy and procedures.
- ☐ Resolve issues of whether information received by an officer, director or employee is material and nonpublic.

Upon determination that an officer, director or employee has material nonpublic information:

- ☐ Implement measures to prevent dissemination of such information, and
- ☐ If necessary, restrict officers, directors and employees from trading the securities.

Detection of Insider Trading

To detect insider trading, the Compliance Officer will:

- ☐ Review the trading activity of each officer, director and employee (including accounts of spouse, immediate family members living in the same household, or other accounts under direct or indirect control)
- ☐ Review the trading activity of accounts managed by the company
- ☐ Review trading activity of the company's own accounts, if any, and

- ❑ Coordinate the review of such reports with other appropriate officers, directors and employees of the company.

Special reports to management

Promptly upon learning of a potential violation of policy and regarding insider trading, the Compliance Officer will prepare a written report to the management of the company providing full details and recommendations for further action.

Annual reports to management

Annually, the Compliance Officer will prepare a written report to the management of the company setting forth the following:

- ❑ A summary of existing procedures to prevent and detect insider trading.
- ❑ Full details of any investigation either internal or by a regulatory agency of any suspected insider trading and the results of such investigation.
- ❑ An evaluation of the procedures and any recommendations for improvement.
- ❑ A description of the company's continuing education program regarding insider trading including copies of any materials provided since the last report to management.

Security Procedures

The Compliance Officer is responsible for maintaining all non-public information in a secure manner on an ongoing basis.

Additional Procedural Detail

Historically, the firm did not engage in trading of individual securities, nor did it otherwise engage in any investment related activities that would provide direct exposure to the potential for insider trading. However, since the inception of investment advisory registration and the beginning of trading activities under that registration in 2005, trading of some individual securities in investment advisory accounts creates more direct exposure. As such, the Supervisory Procedures Manual maintained for the investment advisory business of the firm addresses this issue in more detail as appropriate to those activities, and those details are incorporated here by reference.

16 Annual Compliance Meeting

Annual Compliance Meeting

A Compliance Meeting will be conducted annually by the Compliance Officer for the purpose of s in the firm's compliance policies and reviewing the Compliance Checklist of Prohibited Practices and for re-affirming the adherence to all policies, procedures and regulations. All registered persons will have the opportunity to ask questions and receive answers in a timely manner.

Attendance records will be kept by retaining the initialed checklists in the Compliance and Continuing Education binder.

Representatives failing to attend the annual compliance meeting by the calendar year end will be placed on inactive status until such a review can be made.

Annual Representative Interviews

The Chief Compliance Officer or other appropriately designated principal will prepare an outline of the annual interviews to be conducted with registered representatives. These reviews may be conducted individually, or in a group. Currently, these reviews are conducted as part of the annual Compliance Meeting with all registered personnel.

Each registered representative will attest to any outside securities accounts or outside business activities by completing and signing the form 'Registered Representative Attestation' after the annual interview. These signed forms will be maintained in the binder 'Compliance and Continuing Education Records.'

17 Record Keeping - Operations and Financial

The designated Financial and Operations Principal is responsible for compliance with all SEC, FINRA and State rules and regulations pertaining to the currency, accuracy and maintenance of books and records, and to produce financial records on a regular basis. At a minimum, the Company maintains under her supervision the following operating and financial records.

- ☐ General Ledger
- ☐ Cash Receipts and Disbursements Blotters
- ☐ Checkbooks and Monthly Reconciliations
- ☐ Commission Statements
- ☐ Monthly Trial Balances and Net Capital Computations
- ☐ FOCUS Reports
- ☐ FINRA and SIPC Assessment Reports
- ☐ Accounts Receivable/Payable Files
- ☐ Contracts and Lease Agreements
- ☐ Annual Audited Reports
- ☐ Insurance Policies

Annual Audited Reports

The company is required to file an annual audited report, conducted by an independent public accountant, within 60 calendar days of the firm's year-end. The report is to include all items required by the provisions of SEC Rule 17a-5(d). The firm will send the following copies:

- ☐ Two copies to the Securities & Exchange Commission, Washington, D.C.,
- ☐ One copy to the Securities & Exchange Commission, Miami, FL
- ☐ One copy to FINRA, Washington, DC
- ☐ Once copy to the FINRA district office
- ☐ Where required, one copy to each state in which the firm is registered

FINRA Assessment Reports: Annually

As a member of the FINRA, the firm is required to report on the form provided by FINRA all gross income from securities and non-securities related activities on an annual basis. A copy of the form will be maintained by the FINOP along with copies of all work papers utilized to complete the form (income statements, clearing reports, etc.)

SIPC Annual and Semi-Annual Assessment Reports

As a member of SIPC, the firm is required to report on the form provided by SIPC all gross income from securities activities on an annual and semi-annual basis. (SIPC-6 and SIPC-7 forms)

Fidelity Bond

The Designated FINOP reviews the firm's fidelity bonding coverage as of the anniversary date of the issuance of the bond to determine the adequacy of coverage and compliance with FINRA Rules. Any required adjustments are made within sixty days after the anniversary date of the bond.

18 Record Keeping – Administrative

The company is required to maintain and keep current certain administrative records, as follows:

- ☐ Complete Form BD with amendments (to be maintained for the life of the firm)
- ☐ Corporate records
- ☐ Personnel files, including Forms U-4 and U-5, fingerprint cards, proof of registration, salesperson's agreements, list of principals assigned to representative's supervision, compensation agreements, commission schedules, etc.
- ☐ Written compliance and supervisory procedures (to be maintained for 3 years after termination of use)
- ☐ Selling agreements with all mutual fund and variable annuity companies
- ☐ Selling agreements with issuers of DPPs
- ☐ Annual business review reports
- ☐ Annual registered representative interview reports
- ☐ A list of all associated persons (including officers and directors), their primary office address, rep code, and CRD number
- ☐ A list of all persons at each office who can, without delay, explain the types of records maintained at that office and the information contained in those records. At the home office, those persons are:
 - Amy L. Simonson, Vice President for Finance and Operations and Financial Operations Principal
 - Gordon T. Wegwart, President, Executive Representative, and Compliance Officer

The Chief Compliance Officer is responsible for the maintenance and currency of all administrative records in a format and media that complies with Securities Exchange Act Rule 17a-4. He will preserve for a period of at least 6 years those FINRA books and records for which there is no specified retention period under FINRA or SEC rules.

19 Continuing Education

The Compliance Officer will be responsible for compliance with the continuing education requirements of FINRA By-laws. The Executive Representative, or designee, will conduct an annual continuing education needs analysis and prepare a formal, written training plan to satisfy the Firm Element. The plan will then be implemented in a timely manner but prior to the next annual needs analysis and written training plan.

Evidence of compliance with the Firm Element consisting of copies of all training outlines and materials along with a list of persons completing training will be kept in the firm's Compliance and Continuing Education Binder, and will be available for regulatory review upon request.

To identify registered representatives who are due to satisfy the Regulatory Element of continuing education, the Compliance Officer will review the CE Firm Queues on Web CRD on a monthly basis. Registered Representatives will be notified when they are entering their 120-day window. When they complete the Regulatory Element, evidence of completion will be placed in their personnel file.

The Compliance Officer will also be responsible for ensuring that any registered representatives placed in an inactive status for failure to fulfill their continuing education requirements (either Firm Element or Regulatory Element) do not conduct a securities business or receive commissions until such time as they fulfill their requirements.

20 Anti-Money Laundering

Our Anti-Money Laundering procedures are maintained in an independent document.

21 Direct Participation Programs (DPPs)

General Supervision

The CCO is directly responsible for the review and approval of DPPs offered by the Company and the maintenance of issuer and due diligence files on an as-needed basis. The CCO is responsible for full compliance with Regulation D of the 1933 Act.

If the offering is on a contingency basis, the CCO will comply with SEC Rule 10b-9 by ensuring that the details of the contingency are accurately stated in the offering memorandum. Also in a contingent offering, the CCO will comply with SEC Rule 15c2-4 by ensuring that an escrow account is established at an independent bank and obtaining a copy of the escrow agreement. The CCO will require the general partner or the issuer to show proof that escrow has been broken either by a copy of the bank statement or correspondence from the bank, as well as evidence that all funds received have cleared and are for bona fide sales.

The CCO evidences his review and approval of programs, issuer and due diligence files, escrow agreements and amount of participation by signing and dating the Due Diligence Checklist.

The FINOP is responsible for ensuring that all customer subscriptions are paid for by the specified due date, and for sending out notices to the issuer and customer in the event a customer fails to pay for their investment. A copy of the written notice will be kept with the P&S Blotter, and the trade will be marked "void" on the blotter. The FINOP will also make any necessary adjustments to the Firm's financial statements to reduce the amount of expected concessions receivable on that particular offering.

It is the Firm's policy that subscription documents will only be accepted when accompanied by the customer's payment in full.

Purchase & Sales Blotters

The Company prepares & maintains a blotter for each DPP listing chronologically all transactions with the following information: name of customer; name of the offering; unit price and number of units purchased; dollar amount of transaction; date of transaction; amount of concession or commission. The completed blotter is kept with the deal file.

Due Diligence – General

This firm's due diligence responsibilities will be carried out by the CCO. Investigations will include, but are not limited to, the following basic principles:

1. An appropriate due diligence investigation will be performed for every offering.
2. Such investigations will be custom tailored as to the nature and extent of verifications of data submitted by the issuer, taking into consideration such things as the size of the issuer, availability of public information, SEC form with which securities are being registered, issuer's operating and business history, legal structure of issuer, and type of security to be offered.
3. Competent and experienced counsel with regard to due diligence will be obtained and utilized as needed in the judgment of the CCO. The responsibility for carrying out due diligence rests with the firm, and will not be delegated in its entirety to counsel.
4. The firm will utilize whatever expert or technological assistance is available particularly when the prospective issuer is a "high-tech company" dealing in a product or service requiring a high degree of sophistication.

To provide a second perspective, the CCO will appoint at least one additional individual to participate in the due diligence process for each program. The individual chosen will be at the discretion of the CCO. The individual may be chosen for reasons of experience, expertise, and/or demonstrated insight into the issues being reviewed and will not necessarily be a registered principal. The CCO will determine any division of specific tasks, but both parties will make a full review of the entire due diligence file upon completion. Final approval and full responsibility for the due diligence process and result will remain solely with the CCO.

Due diligence investigations shall continue to the time at which a selling agreement with the issuer is executed. However, should a program operate as a continuous offering, due diligence will be ongoing throughout the period during which the firm continues to offer the program. This ongoing due diligence process will be designed by the CCO based upon the specific nature of the program and the types of risks anticipated. The specific components to be reviewed as part of this continuing due diligence and the schedule under which they will be implemented will be put in writing as part of the initial due diligence file. These may include such things as quarterly monitoring of financials, monthly review of bank statements, and periodic reports on the entity's specific business functions, among others. This process may be modified as needed during the course of the offering. Documentation of completion of each of the continuing due diligence procedures will be signed by the CCO, dated, and retained with the deal files. Should any reporting required of the offering entity fall more than 30 days late, sales of the program will be suspended by the CCO until such time as reporting is brought back into current status and he or she is satisfied in all respects that the offering should be continued.

Due Diligence - Specific

The following components of a DPP will be investigated and documented:

- The issuer and its management.
- The business prospects of the issuer.
- The assets held by or to be acquired by the issuer.
- The claims being made in the offering documents.
- The intended use of the proceeds of the offering.

The following factors will be considered and documented in determining the depth and scope of the investigation:

- Is the issuer affiliated with the firm?
- Have the offering documents been prepared by the firm?
- Has the firm determined that it lacks essential information about either the issuer or its securities?
- Are there any red flags present?
- Has the firm retained outside counsel to assist in fulfilling its investigation obligation?

Specific Items Checklist

A review and examination of various components of an offering is required to be completed and documented by the firm in order to ensure a reasonable investigation. Because the firm cannot rely solely on information provided by an issuer, efforts must be made to independently verify an issuer's representations and claims by utilizing (where feasible) third party resources (e.g., internet searches, state websites, outside experts.) Although the amount and nature of an investigation will be tailored to each offering based on many factors, the firm utilizes a Specific Item Checklist to provide the framework for each DPP investigation.

The following items will be investigated whereby the process, information resource, and results are documented:

- Examination of the issuer's governing documents.
- Inquiry of the issuer's affiliates businesses and any financial reliance between the affiliate and issuer.
- Examination of the issuer's past financial statements.
- Inquiry of the issuer's internal audit controls.
- Review of the issuer's contracts, leases, financing arrangements and similar documents.
- Inquiry about the issuer's past securities offering.
- Inquiry about pending litigation involving the issuer.
- Inquiry about previous or potential regulatory or disciplinary problems the issuer has faced.
- Inquiry concerning the issuer's management, including their claimed expertise and disciplinary history.
- Inquiry about type and amount of management compensation.
- Inquiry about how long the issuer has been in business and whether the business is expected to change.
- Inquiry about the viability of patents or other intellectual property.
- Inquiry about the issuer's industry, including industry prospects, applicable regulation and competition.
- Inquiry of potential conflicts of interest relating to the issuer, issuer's key personnel and outside auditors.
- Review of the issuer's business plans.
- Review of the issuer's financial models, targets and claimed production.

- Visiting the issuer's facilities.
- Inspection of samples of issuer's assets.
- Examination of third-party reports, e.g., geological, land use and engineering reports.
- Obtaining expert opinions, especially when the issuer is in the energy and exploration business.
- Determination and examination of noted red flags.

Issuer and Due Diligence Files

Issuer and due diligence files are maintained by the CCO for each DPP and contain the following information:

1. A copy of the offering memorandum;
2. Copies of all correspondence with the issuer;
3. All documentation relating to the due diligence performed by the firm;
4. A copy of any executed escrow agreement established by the issuer and its bank; bank documentation indicating proper breaking of escrow (bank correspondence and bank statements).
5. A copy of the selling agreement executed with the issuer;
6. A master list of each customer who purchased the investment, the date of purchase, and number of units, and the aggregate purchase price, and whether the customer is accredited or non-accredited.
- 7.

FINRA Filing of Private Placement Memoranda

For any private placements that begin selling efforts after December 3, 2012, the CCO will file electronically through the FINRA Firm Gateway a copy of any private placement memorandum, term sheet, or other offering document used by the firm within 15 calendar days of the date of the initial sale, or indicate that the firm did not use any such offering documents. The CCO will also file any materially amended versions of documents originally filed. (FINRA Rule 5123)

Suitability of DPPs

Customers will be apprised of the risks of investing in DPPs by providing the customer a copy of the offering memorandum and reviewing the document thoroughly with the customer. All customer disclosures required by FINRA Conduct Rule 2310(b)(3) are included in the offering memorandum. The CCO will review & approve all DPPs to ensure proper disclosures.

No sales will be made to any investor unless the CCO or other designated Compliance Officer has reviewed the investor's financial and investment background, is satisfied that current account information is complete, and has determined that the investment is suitable in light of all relevant factors. The CO's signature on the subscription documents indicates that a suitability determination has been made.

Delivery of Offering Documents

The CCO will maintain offering documents and keep a written record of the representative and customer to whom each copy is released. Prior to checking out offering documents to any prospective customer, the CCO or other designated Compliance Officer will verify that the firm has established a substantive, pre-existing relationship with the prospect. If the prospect is not an existing customer, the registered representative may accomplish this by submitting a Direct Participation Program Prospective Investor Profile form to the CCO at least 30 days in advance of the release of any offering documents. The only exception is for a prospective client who makes an unsolicited call to Verity Investments, Inc. requesting information about a specific program that they have learned about independently. In this event, the prospect must sign a Non-Solicitation Acknowledgement Form specifying the person from whom they learned about the program and must provide sufficient information to complete a Prospective Investor Profile so that the Compliance Officer may make a determination as to the qualifications of the investor before issuing an offering memorandum.

Transactions

Private placement orders require the use of the issuer's subscription document. All subscription documents must be accompanied by full payment.

Review of Transactions

The CCO or his designated registered principal (CO) must review all subscriptions prior to submission to the issuer. Approval of the transaction is indicated by initialing and dating the subscription paperwork. The CO reviews transactions for the following:

1. Transactions inconsistent to the customer's investment objectives.
2. Transactions not within the customer's financial resources.
3. Broker guarantees against possible loss of investment.
4. Employee and related account transactions versus customer transactions with regard to possible conflicts of interest.
5. Suitability.
6. Accredited investor status. If an offering permits a limited number of non-accredited investors and other brokerage firms are involved in offering, the Compliance Officer will telephone the issuer each time during the course of an offering that the firm wants to submit a subscription from a non-accredited investor to inquire about the total number of non-accredited investors at that time. The Compliance Officer will make a written record of his inquiry and place it in the deal file for the offering. The CCO will notify all registered persons involved in selling the offering when the limit of non-accredited investors has been met.
- 7.

Discretionary Orders

The Firm will not accept any discretionary orders.

Errors

It is the representative's responsibility to bring a trade error to the attention of the Financial and Operations Principal (FINOP). The FINOP will then take steps to rectify and correct the error. Under no circumstances may a registered representative enter an order to reverse an error.

Short Sales

Short sales are not permitted.

Disclosures

In the event that the Firm is affiliated with an issuer, such affiliation will be clearly disclosed to customers in the offering documents and discussed with a potential customer before any transaction in the issuer's securities takes place. (SEC Rule 15c1-5)

Similarly, all offering documents will clearly describe the firm's financial interest or participation (if any) in the transaction. (SEC Rule 15c1-6)

The firm will participate in contingent offerings and will ensure that the contingencies associated with the offering are disclosed clearly and fully in the offering documents and provided to potential customers before transactions in such securities take place. (SEC Rule 10b-9)

The CCO is responsible for ensuring all offering documents contain all required disclosures. He will initial and date the firm's file copy of the offering documents to evidence his review and approval.

Transactions by Subscription

DPPs are purchased by subscription. Only products specifically approved by the CCO or an appropriately designated principal are to be offered to customers. The subscriptions must be completed in full and accompanied by a completed Investor Application and the customer's check prior to submitting for written approval of the transaction by the CO.

Customer checks must be made payable to the issuer's bank escrow agent, where applicable, prior to the occurrence of contingent events outlined in the prospectus or payable to the issuer after escrow has been broken. Customer checks must be remitted to the home office by noon of the business day following receipt. At the discretion and under the supervision of the CCO, an exception to the manner of transmittal of customer checks may be made under circumstances such as receipt of a customer check at a remote location on the day before a closing. In such an instance, the CCO may permit a registered representative to deposit a customer check directly to escrow or forward a customer check directly to an issuer, as appropriate, so long as it is done under the explicit instructions and monitoring of the

CCO, who will take subsequent steps necessary to confirm deposit or delivery. The CCO will document any such exception by his notes and signature on pertinent copies and paperwork in the client and/or deal file(s).

Transactions for Personnel of Another Broker/Dealer

If a client is employed by another broker/dealer, the Company must use reasonable diligence to determine that the execution of transactions on such customer's behalf will not adversely affect the interests of his employer. The Compliance Officer will send a copy of the new account form to the Compliance Officer or an appropriately designated principal. Where the Company knows that an employee of another broker/dealer has or will have a financial interest in, or discretionary authority over, any existing or proposed account, the CCO or his designated principal will:

1. Notify the employer in writing of the Company's intention to open or maintain such an account.
2. Upon written request by the employer, transmit duplicate copies of confirmations, statements, or other information with respect to such account.
3. Notify the client of the Company's intention to provide the notice and information to the client's employer.

22 Non-Cash Compensation

FINRA and SEC regulations require the maintenance of records relating to non-cash compensation. To properly monitor any non-cash compensation to representatives of the firm, the Compliance Officer will be responsible for approving in writing any non-cash compensation opportunities deemed appropriate and will document and retain the following information:

1. Name of the sponsor or company conducting the training, educational meeting, or other event
2. Name(s) of the associated persons of the firm participating
3. Nature and value of the non-cash compensation to be received
4. Location of the event
5. Any other pertinent information
6. Signed copy of the Compliance Officer's approval

23 Gifts, Gratuities, and Business Entertainment

FINRA Conduct Rule 3220 states that no member or associated person may accept or give, directly or indirectly, anything of value, including gratuities in excess of \$100 per individual per year where such payment is in relation to the business of the employer of the recipient.

For the purposes of determining the \$100 limit, the following parameters apply:

- Value of the gifts given by the firm and each of its associated persons to a particular recipient over the course of a calendar year must be aggregated.
- Gifts must be valued at the higher of cost or market value, exclusive of tax and delivery charges.
- Tickets must be valued at the higher of market value or face value.
- If gifts are given to multiple recipients, gifts must be valued on a pro rata per recipient basis.

The prohibitions of Rule 3220 generally do not apply to the following:

- Personal gifts such as a wedding gift or a congratulatory gift for the birth of a child, provided that these gifts are not “in relation to the business of the employer of the recipient.” A gift would not be “in relation to the business of the employer of the recipient,” if (1) there is a pre-existing personal or family relationship between the person giving the gift and the recipient and (2) the registered representative or associated person personally pays for the gift.
- De minimis and Promotional Items:
 - Gifts of de minimis value (e.g., pens, notepads or modest desk ornaments).
 - Promotional items of nominal value that display the firm’s logo (e.g., umbrellas, tote bags or shirts).
 - Plaques or other similar solely decorative items commemorating a business transaction, even when such items have a cost of more than \$100.

Business Entertainment

Ordinary and usual business entertainment where the associated person is **acting as host and accompanies the customer’s employee(s)** is not generally subject to the above limitations provided that such entertainment is neither so frequent nor so extensive as to raise any question of propriety. “Business entertainment” is defined as providing entertainment to a customer’s employee in the form of any social event, hospitality event, charitable event, sporting event, entertainment event, meal, leisure activity or event of like nature or purpose. It includes transportation and/or lodging associated with or related to such activity or event, including business entertainment offered in connection with an educational event or business conference. However, gifts given during the course of business entertainment and conferences must be recorded as gifts.

Appropriate Forms of Business Entertainment

The criteria that the Firm uses to evaluate the propriety of business entertainment may include the following factors:

- With Respect to the Entertainment:

Whether the nature, cost, or extent of the entertainment could reasonably give rise to an actual or perceived conflict of interest, or encourage a quid pro quo business transaction.

Whether the nature, cost, and extent of the entertainment is consistent with the nature of the business relationship and the relationship of the parties involved.

Whether the provision of any transportation, lodging, or other accommodations is appropriate.

Whether the entertainment would be considered usual and customary within the industry.

Whether the entertainment would be considered usual and customary within the member organization.

Whether the cost of the entertainment is consistent with the location (city and/or establishment) in which the entertainment takes place.

Whether the entertainment extends to the client's spouse or to guests of the client.

Whether the entertainment might otherwise reasonably be perceived to be improper.

- With respect to the client:

Whether the recipient of the entertainment has fiduciary duties (e.g., to a public company, a state, or a municipality) that may give rise to specific legal or ethical considerations.

Frequency of entertainment provided to the client.

Frequency of firm contact with the client in the ordinary course of business.

- With Respect to the Business Purpose:

Whether the entertainment is in recognition of a completed deal.

Whether the entertainment is educational/philanthropic in nature, or strictly recreational.

It is acceptable for Verity Investments, Inc. or its associated persons to provide meals; tickets to entertainment, social or sporting events; admission or fees to leisure activities; or other events of like nature, so long as the entertainment would not appear extravagant or excessive under the circumstances and considering the factors above. However, it is prohibited for business entertainment under any circumstance to have a value of greater than \$150 per person per event, to have a cumulative annual value of greater than \$250, to consist of more than 3 events per person per year, or to involve an overnight stay without prior written approval by the Compliance Officer.

Records of Expenses

Associated persons must submit to the Compliance Officer on a monthly basis detailed records of the nature and expense of business entertainment that includes the following information, at minimum:

- Date(s) of business entertainment
- Customer and employee name(s)
- Description of the activity
- Cost of the activity

Records of business entertainment will be made available upon written request to a customer regarding its employees.

Supervision

All gifts given or received will be recorded on the Gifts Log. The Gifts Log will be reviewed and signed by the Compliance Officer on a quarterly basis in the event of any activity during the quarter. If there are multiple gifts to any individuals, those amounts will be aggregated over the course of each calendar year. Copies will be retained in the compliance files.

Records of business entertainment will be retained by the Compliance Officer in the compliance files. The Compliance Officer will review the submitted expense records quarterly, where pertinent, to ensure that the business entertainment expenses were appropriate and not so lavish as to interfere with an employee's duty to a customer. If an activity is deemed to be inappropriate, the Compliance Officer will require additional training for a first offense. Any further offense will, at minimum, result in a requirement of pre-approval for any proposed business entertainment and may result in prohibition of future business entertainment, at the discretion of the Compliance Officer.

The Firm will also review the effectiveness of its supervision of business entertainment as part of its annual test of the Firm's supervisory control procedures. Any gaps identified during the test and the measures taken to address the gaps will be included in the written report presented to Senior Management.

Training

The firm will implement a training program addressing business entertainment to ensure that associated persons understand their responsibilities regarding such expenses. As a small firm that does little business entertaining apart from occasional meals, internal training is anticipated to be very effective. The training, to be incorporated into the firm's Annual Compliance Meeting, will include the topics covered above.

Training session attendance and copies of training materials will be documented by the Compliance Officer and records retained in the Annual Compliance and Continuing Education binder.

24 Outsourcing

The Compliance Officer will oversee the management of risk posed by the outsourcing of various critical functions to outside service providers. Such providers might provide administration, financial reporting, regulatory services, maintenance of books and records, and other similar functions. The Compliance Officer shall ensure that each third party service provider has adequately demonstrated operational soundness by conducting or verifying due diligence at the onset of the relationship and capturing the responsibilities to be performed in a written contract, which will include a confidentiality agreement. In conducting due diligence, consideration will be given to the sensitivity of the data accessed by the third party, the materiality of the function to the firm's business, the third party's experience and reputation, the third party's ability to maintain business continuity, and the reliability of its technology or other resources. The third party service provider will be subject to ongoing oversight by qualified and relevant firm personnel for the purpose of monitoring performance and supervising the activities of the service provider. Records of due diligence regarding third party service providers, including documentation of ongoing oversight and the parties exercising oversight, will be retained by the Compliance Officer with the Outsourcing files.

25 Regulation Best Interest

General Compliance

Regulation Best Interest imposes upon the Firm a number of compliance responsibilities. Policies and procedures to meet these responsibilities will be implemented and supervised under the direction of the Compliance Officer.

- Controls – The Firm will seek to maintain a business structure that generally avoids either product types or product pricing that creates conflicts of interest. In part, this includes avoiding approval of variable annuity products that provide materially higher compensation than standard mutual fund compensation. It also includes careful attention to share class selections, including share class selections for 529 Plan accounts, with consideration for the age of the account beneficiary at the time of application. Where material conflicts of interest do exist, as in the case of large variable annuity sales which are not subject to the commission “breakpoints” of mutual funds, all sales of these products will be subject to heightened supervision during the compliance review process to assure that recommendations and sales are in the best interest of the client.
- Training – Attention to the requirements of Regulation Best Interest and delivery of Form CRS will be included in the Firm’s standard compliance training for associated persons, including the Annual Compliance Meeting.
- Periodic Review and Testing - Compliance with the Firm’s policies and procedures regarding Regulation Best Interest and Form CRS will be incorporated into the Annual Review of Business and Supervisory Procedures Testing.
- Remediation for Non-Compliance – Associated persons who are in violation of any of the Firm’s compliance policies and procedures will be subject to additional training along with warning, suspension, or termination, depending on the severity of the violation and/or incidence of repeat violations, at the discretion of the Compliance Officer.
- Records Retention – The Firm will retain records of information collected from and provided to each retail customer for at least 6 years after the earlier of the date the account was closed or the date the information was replaced or updated.

Use of the term “advisor” in a name or title by either the Firm or an associated person of the Firm that is not a supervised person of an RIA is a violation of Regulation Best Interest.

Form CRS (Customer Relationship Summary)

Under the supervision of the Compliance Officer, the Firm will prepare and maintain, including updates in the event of any changes, a Customer Relationship Summary (CRS). Documentation of review with pertinent updates will take place no less than annually, and interim updates will take place any time any information becomes materially inaccurate.

For existing retail investors, Form CRS must be delivered before or at the time of:

- A recommendation to rollover assets from a retirement account.
- A recommendation of a new service that does not involve having or opening an account, such as a financial planning agreement.

For new retail investors, Form CRS must be delivered before or at the earliest of:

- A recommendation of an account type, securities transaction, or investment strategy.
- Placing an order for the purchase of securities for the investor.
- Opening a brokerage account.

Form CRS will be updated in the event of any material changes:

- The Firm will update and file via CRD within 30 days after any information becomes materially inaccurate.
- The Firm will communicate these changes to retail investors within 60 days after the updates are required to be made.
- The updates to retail investors will be highlighted, including an exhibit or summary of the updates.

The Firm will retain records of information collected from and provided to each retail customer for at least 6 years after the earlier of the date the account was closed or the date the information was replaced or updated.

Conflicts of Interest and Material Limitations

Under Regulation Best Interest, conflicts of interest and material limitations must be identified and either eliminated or mitigated and disclosed.

- The Firm will identify and eliminate, or at a minimum disclose, all conflicts of interest associated with the Firm's recommendations.
- The Firm will identify and mitigate any conflicts of interest associated with recommendations that create an incentive for an associated person to place their interest or the interest of the Firm ahead of the retail customer's best interest. Mitigation procedure will include training in the responsibilities to act in the best interest of the client and careful consideration of product selections during trade review. The trade review principal will question product selections that are a cause for potential concern, whether because of share class selection, switching from one fund or annuity company to another, or similar factors. Sales contests, quotas, bonuses, and non-cash compensation based on the sale of specific securities or types of securities within a specific time frame will be prohibited.
- The Firm will identify and disclose any material limitations placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations, and prevent such limitations and associated conflicts of interest from causing the associated person to make recommendations that place his or her interest ahead of the interest of the retail customer. At present, the Firm's only material limitations are the fact that we offer only mutual funds (including those in 529 Plans) and variable products (including variable annuities and variable life insurance). The Firm has no proprietary products, no account limitations, and no revenue sharing arrangements with third party product providers.

The Firm's structure for identifying conflicts will be as follows:

- Identify any conflict between a recommendation to open or maintain a commission-based account with the Firm as a broker-dealer versus a fee-based account with the Firm's sister company, Verity Asset Management, an investment advisory firm (or another investment advisory firm). In general, consideration will include a clear difference between the product and service offerings of broker-dealer (which offers only point-of-sale recommendations from a limited product line of mutual funds and variable annuities and no account monitoring) and investment advisor (which in the case of Verity Asset Management offers monitoring services and discretionary account management in a broad range of investment strategies utilizing nearly the full spectrum of exchange-traded securities, among other customized services).
- Identify any conflict between types of products, such as differences in compensation between mutual funds and variable annuities, particularly for variable annuity sales in amounts of \$100,000 and greater.
- Identify any conflict based on pricing variations for a particular product or type of product, such as different share classes for mutual funds or differences in compensation for different variable annuities. (Failure to seek optimal pricing by taking advantage of breakpoints letters of intent, including splitting

mutual fund sales among multiple fund companies without consideration for breakpoints, are addressed in Section 9 – Trade Review.)

The Firm will evaluate new types of products and/or services using the structure above for any pricing variations which may create incentives to offer products that are not in the best interest of the retail customer. The Firm will similarly evaluate any new elements of the business for conflicts of interest they may pose. In any instance of a new conflict of interest that cannot be eliminated, this conflict will be added to the Firm's disclosures.

Disclosure of Material Risks

Material risks for the securities offered to clients will be disclosed in the pertinent prospectus for each fund or subaccount. Additional risks related to the specific nature of the recommendation to a client will be disclosed orally by the registered representative; oral disclosures will be documented on the New Account Application.

Rollovers

To document compliance with the requirement that registered representatives cover pertinent questions with each client regarding the pros and cons associated with a rollover of assets from a retirement plan to an IRA, a Retirement Plan Rollover Pros and Cons form will be required with each application for a new IRA being funded with rollover assets from a retirement plan and each independent transfer of assets into an existing IRA recommended and submitted by a registered representative of the Firm.

A client can make only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own.