

MEMORANDUM

To: File Nos. S7-07-18, S7-08-18, S7-09-18

From: Eric Diamond, Senior Advisor to Chairman Jay Clayton

Re: Standards of Conduct for Investment Professionals

Date: July 24, 2018

On July 23, 2018, Lucas Moskowitz (Chief of Staff to Chairman Clayton) and Eric Diamond (Senior Advisor to Chairman Clayton) met with:

- David Hollingsworth (Senior Director, Public Policy & Content Development, AALU)
- Bridget McNamara-Fenesy (President and CEO, M Holdings Securities, Inc.)
- Joy Dawe (Vice President, Market Conduct, Crump Life Insurance Services)
- James Lundy (Partner, Drinker Biddle & Reath LLP)
- Bradford Campbell (Partner, Drinker Biddle & Reath LLP)

The meeting participants discussed, among other things, the SEC's proposed rules and interpretation relating to standards of conduct for investment professionals. At the meeting, the AALU representative distributed the attached document.

Explaining the differences between Insurance, Broker Dealer and Investment Advisory Services

INDEPENDENT CONTRACTOR RELATIONSHIP WITH ACME

As an independent financial professional, I am able to work with my clients to determine the services that are most appropriate given their goals and circumstances. Based on the services you request, I work through various ACME companies (described in this document), to fulfill your risk management and wealth management needs in my capacity as an insurance agent (insurance services), as a registered representative (brokerage services), as an investment adviser representative (advisory services), or any combination of these roles.

I am affiliated with the ACME companies (also collectively referred to as "ACME") in the following ways:

- I & REP COMPANY NAME are contracted through ACME Insurance Agency, Inc. to provide fixed (general account) life insurance and annuity products that are regulated by state insurance departments.
- I am also a Registered Representative of ACME Securities, Inc., a national, introducing broker-dealer, registered with the Financial Industry Regulatory Authority (FINRA) and the U.S. Securities and Exchange Commission (SEC). When selling securities products, I sell these products through the broker-dealer. These products include variable life insurance and annuity products offered by life insurance companies.
- I am also an Investment Advisor Representative of ACME Advisers, Inc., registered with the SEC.

I am not an employee of ACME companies; I am an independent contractor and have chosen to affiliate with the ACME companies to offer certain financial products through them to my clients. REP COMPANY NAME is likewise not owned or controlled by ACME. As independent contractors, we pay all of our own expenses including staffing, rent, medical and retirement benefits.

It is important to understand that insurance, securities and investment advisory services are separate and distinct and each is governed by different laws, legal standards and separate contracts with you. While there are similarities, depending on the capacity in which we act, our contractual relationship and legal duties to you are subject to a number of important differences. I encourage you to review this information carefully and discuss it with me further if you have any questions.

INSURANCE SERVICES DISCLOSURES

INSURANCE PROFESSIONAL SERVICES:

I am licensed with certain state departments of insurance and appointed with several insurance companies to offer a wide variety of insurance products such as life insurance, disability insurance, long-term care insurance, annuity products and group insurance.

When I serve as an insurance agent, my compensation is exclusively in the form of commissions, and bonuses (which could be cash or non-cash arrangements such as travel) paid to me directly by the insurance carrier or through ACME Insurance Agency, Inc. While I am under no obligation to sell any specific company's products, I have agreed to minimum production requirements, in aggregate, to maintain a relationship with

ACME's preferred insurance carriers. ACME's contracts and purchasing power with these carriers may allow us to purchase insurance products at better terms for our clients and also may lead to higher compensation paid on business with certain carriers than other carriers that we may work with through other relationships.

BROKER-DEALER SERVICES DISCLOSURES

BROKER-DEALER SERVICES:

As an introducing broker-dealer, ACME Securities, Inc. is able to take customer orders and execute securities transactions either by you writing a check to an insurance company, mutual fund company, or other investment company directly, or by you establishing a brokerage account and making deposits to our clearing firm, WIDGETS LLC.

I can assist clients in meeting overall investment needs and goals and implementing investment strategies that are designed to pursue those investment goals. I am also able to make recommendations to brokerage clients about whether to buy, sell or hold securities such as stocks, bonds or mutual funds.

However, I will only buy or sell securities upon specific directions from you. ACME Securities, Inc. does not allow me, as a registered representative, to have the discretion to make investment decisions on your behalf.

- Recommendations made are considered to be part of our brokerage services and no separate fee is charged for this advice.
- Recommendations must be suitable for each client in light of the client's particular financial circumstances, goals and tolerance for risk.

VARIABLE LIFE AND ANNUITY PRODUCTS:

Variable life insurance and annuity products are regulated by state insurance/securities departments, by FINRA and the SEC (an overlap of insurance and broker-dealer regulatory structures). These products are filed with the SEC and require a prospectus, which contains information on costs and risks associated with the investment. These products are regulated as securities because they offer clients investment choices in sub-accounts that contain securities. When these products are recommended to the client, we are acting in the capacity of a broker-dealer. Compensation is in the form of commissions and bonuses similar to fixed (general account) life insurance products. These transactions are supervised by ACME Securities, Inc. and must be deemed suitable for the client, based on information you provide.

COMPENSATION, CHARGES AND POSSIBLE CONFLICTS:

If you choose to establish a brokerage account with us, you will pay a commission for our brokerage services each time we execute a transaction for your account. In the case of variable life and annuities, ACME Securities, Inc. will be paid a commission by the insurance company that issued the policy. ACME Securities, Inc. pays a large portion of the commission it receives to me as a registered representative of the broker-dealer.

While I am under no obligation to recommend any specific company's products, I have agreed to minimum production requirements, in aggregate, to maintain a relationship with ACME Securities, Inc.'s preferred insurance companies. ACME Securities contracts and purchasing power may allow us to

purchase products at better terms for our clients and may lead to higher compensation paid on business with certain insurance carriers than other carriers that we may work with through other relationships.

In addition to the full disclosure of all charges for specific products which can be found in the prospectus, further details about specific brokerage service pricing and special compensation arrangements that ACME Securities has with issuers may be found by visiting our website at the following link _____ or will be provided to you at your written request.

ROLE & RESPONSIBILITY AS YOUR BROKER DEALER:

When I act as your broker for securities transactions, ACME Securities, Inc. and I are held to the legal standards of the Securities Exchange Act of 1934, the Securities Act of 1933, the rules of self-regulatory organizations such as FINRA and state laws where applicable, which include:

- As your broker and broker-dealer, ACME Securities, Inc. and I have a duty to deal fairly with you.
- We must have a reasonable basis for believing that any securities recommendations we make to you are suitable and appropriate for you, given your individual financial circumstances, needs and goals as disclosed to us by you.
- A registered principal of ACME Securities, Inc. must also review the recommendations I have made and evaluate whether or not they are suitable.
- Consistent with our duty of fairness, we are obligated to make sure that the prices you receive when we execute transactions for you are reasonable and fair in light of prevailing market conditions.

When we act as your broker, we do not enter into a fiduciary relationship with you, as we do when providing investment advisory services. Our legal obligations to disclose detailed information to you about the nature and scope of our business, fees, and conflicts between our interests and your interests is different than when we have fiduciary duties with you as described further in our Advisory Services Disclosures.

INSURANCE AND BROKERAGE SERVICES ADDITIONAL DISCLOSURES

ACME Insurance Agency, Inc. and ACME Securities, Inc. have contracts with certain insurance companies to have access to products, expertise and systems, and maintain purchasing power with these carriers for our clients. We have also agreed to perform certain services in lieu of insurance company employees performing those services, including gathering all medical information. As a result of direct contracts and a large volume of business with these select insurance companies, there may be higher compensation paid by these carriers to us than ones that we work with through other relationships. These carriers will reimburse ACME companies for medical exams, lab work and the costs of gathering medical records. In addition, select carriers may subsidize software, training, meetings, and trips and other benefits, but the value of these items in total does not exceed 5% of total compensation.

ADVISORY SERVICES DISCLOSURES

INVESTMENT ADVISORY SERVICES:

I may offer a number of investment advisory services to clients, acting in the capacity of an investment adviser representative of ACME Advisers, Inc. Services may include comprehensive financial planning, limited discretionary investment advisory programs, and advice on the selection of investment managers and mutual funds offered through our investment advisory programs.

When we act as your investment adviser, we will enter into a written agreement with you expressly acknowledging our investment advisory relationship with you and describing our obligations to you. At the beginning of our advisory relationship, we will give you our Form ADV Part 2A and Part 2B brochure(s) that provide detailed information about, among other things, the advisory services we provide, our fees, our code of ethics, our other business activities and financial industry affiliations and any conflicts between our interests and your interests. This information can also be found at the following link _____

CHARGES FOR INVESTMENT ADVISORY SERVICES:

For asset management accounts ACME Advisers will charge you an annual fee which you will authorize to be withdrawn from your account on a quarterly basis. These fees are based on a percentage of assets held in your advisory account. For consulting services, fees for services will be negotiated with me and documented in the advisory contract. ACME Advisers will pay me a large portion of the fees that you pay directly or authorize to be withdrawn from your account.

FIDUCIARY ROLE & RESPONSIBILITIES AS AN INVESTMENT ADVISER:

As a registered investment adviser, ACME Advisers, Inc. and I are considered to have a fiduciary relationship with you. We are held to legal standards under the Investment Advisers Act of 1940 and state laws, where applicable, that reflect these standards, which include:

- Obligations to disclose to you all material conflicts between our interests and your interests.
- If we or our affiliates receive additional compensation from you or a third-party as a result of our relationship with you, we must disclose that to you.
- We must obtain your informed consent before engaging in transactions with you when we act in an advisory capacity.
- We must treat you and our other advisory clients fairly and equitably and cannot unfairly advantage one client to the disadvantage of another.
- The investment decisions or recommendations we make for you must be suitable and appropriate for you and consistent with your investment objectives and goals and any restrictions you have placed on us.
- It is important to note that there may be limitations on damages you may recover against us as an advisor, such as damages being limited to amount equal to fees paid.

Explaining the differences between Insurance, Broker Dealer and Investment Advisory Services

FOR MORE INFORMATION

Ensuring that you understand the various roles in which I may deliver various financial products to you is important to me. The insurance, brokerage and advisory services we offer differ in ways other than those summarized in this document. Therefore, it is important you carefully read all agreements and disclosures provided to you with respect to the specific products or services under consideration.

you need information beyond the disclosure provided here, links to the website, information contained in prospectuses, or the form ADVII, we welcome your questions. You can either direct these to me as your financial professional or request information in writing or via email.

For more information, visit us at www.acmesecurities.com

While we strive to make sure the nature of our services is clear, if

By signing below, I, _____, acknowledge that, NAME HERE REP NAME has reviewed with me the various roles in which he/she may serve and given me an opportunity to seek additional information about the nature of the services and potential conflicts of these roles.

CLIENT NAME

DATE
