

# Merrill Lynch Hard Dollar Research Services

## BROCHURE

Merrill Lynch, Pierce, Fenner & Smith Incorporated  
One Bryant Park  
New York, NY 10036  
(800) 637-7455  
[www.ml.com](http://www.ml.com)

This brochure provides information about the qualifications and business practices of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") relating to the Hard Dollar Research Services. If you have any questions about the contents of this brochure, please contact us at (646) 855-4893. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Investment adviser registration does not imply a certain level of skill or training.

The advisory services described in this brochure are not insured or otherwise protected by the Federal Deposit Insurance Corporation or any other government agency; are not an obligation of any bank or any affiliate of Merrill Lynch; are not endorsed or guaranteed by Bank of America, N.A., Merrill Lynch, or any bank or any affiliate of Merrill Lynch; and involve investment risk, including possible loss of principal.

Additional information about Merrill Lynch also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**August 26, 2013**



## **MATERIAL CHANGES**

On April 1, 2013, Merrill Lynch filed its last annual update for its Hard Dollar Research Services brochure (“Brochure” or “Disclosure Statement”). Set forth below is a summary of the material changes to this Brochure since that date. This summary of material changes is designed to make clients aware of information that has changed since the Brochure’s last annual update and that may be important to them. The material changes summarized below were also incorporated within this Brochure. Capitalized terms that are not defined in this Brochure have the meanings provided in the Glossary.

There have been no material changes since the Brochure’s last annual update.



## TABLE OF CONTENTS

MATERIAL CHANGES.....	I
TABLE OF CONTENTS .....	II
ADVISORY BUSINESS.....	1
Hard Dollar Research Services .....	1
Investment Restrictions.....	2
Wrap Fee Programs.....	2
Assets Under Management.....	2
FEES AND COMPENSATION .....	3
Calculation and Deduction of Advisory Fees .....	3
Other Fees and Expenses .....	3
Prepaid Fees.....	3
Compensation for the Sale of Securities .....	3
Conducting Business Through Merrill Lynch.....	4
Limitations on Merrill Lynch's Role and the Hard Dollar Research Services.....	4
Sources of Revenue .....	4
Fee Offset for Execution Charges .....	5
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....	5
TYPES OF CLIENTS .....	5
METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	5
Client Responsibilities .....	5
Risk Disclosure.....	5
Material Risks For Significant Investment Strategies.....	6
DISCIPLINARY INFORMATION .....	7
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	11
CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	12
Code of Ethics.....	12
Participation or Interest in Client Transactions .....	13
Investments in Securities by Merrill Lynch and Our Personnel.....	14
BROKERAGE PRACTICES.....	14
REVIEW OF ACCOUNTS .....	14
CLIENT REFERRALS AND OTHER COMPENSATION .....	14
Other Compensation.....	14
Compensation for Client Referrals .....	15



**CUSTODY..... 15**

**INVESTMENT DISCRETION ..... 16**

**VOTING CLIENT SECURITIES ..... 16**

**FINANCIAL INFORMATION ..... 16**

**GLOSSARY ..... 17**



## ADVISORY BUSINESS

Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch,” “we,” “us,” or “our”), a direct wholly-owned subsidiary of Merrill Lynch & Co., Inc. (“ML&Co.”) and an indirect wholly-owned subsidiary of Bank of America, is a global investment banking firm and a registered broker-dealer, investment adviser and futures commission merchant. Merrill Lynch offers a broad range of brokerage, investment advisory, retail and other services and has been registered with the Securities and Exchange Commission (“SEC”) as an investment adviser since 1978. This Brochure relates to the Hard Dollar Research Services offered by Merrill Lynch. Capitalized terms that are not defined in this Brochure have the meanings provided in the Glossary. For purposes of this Brochure, “you” refers to the client.

### **HARD DOLLAR RESEARCH SERVICES**

Merrill Lynch offers research reports and other products produced by its Global Research group (“Global Research”) and services (“Research Services”) to a wide variety of Merrill Lynch clients, both retail and institutional, as a service incidental to our brokerage services. Under certain circumstances, Merrill Lynch Institutional Sales, through our Global Commission Management (“GCM”) group, may provide certain of these Research Services for a fee (“Hard Dollar Research Services”) to institutional clients upon their request. We do not solicit or market Hard Dollar Research Services.

Hard Dollar Research Services may include any or all of the following types of Research Services

- Research reports produced by Global Research analysts;
- Other research-related correspondence and communications from Global Research analysts relating to research reports produced by Global Research analysts; and
- Customary access to Global Research analysts in connection with Global Research conferences, non-deal road shows, Global Research conference calls, client meetings and calls relating to Global Research products.

Hard Dollar Research Services do not include:

- Any Research Services not specified in a service agreement between us and you (“Service Agreement”);
- Any services or communications provided by Institutional Sales associates (including any services or communications that may be based on Hard Dollar Research Services); or
- Research Services provided by analysts employed by our affiliates.

The delivery of Hard Dollar Research Services does not involve our engaging in securities transactions on behalf of you. As a consequence, many topics related to trading are not applicable to our delivery of Hard Dollar Research Services. Our advisory relationship with you is strictly limited to the provision of the Hard Dollar Research Services, and any trades, transactions or orders that may be executed, routed or otherwise processed through us by you will be handled by us solely in our capacity as a broker-dealer. Your relationship with us in connection with the Hard Dollar Research Services commences only on the date of the Service Agreement, and the Hard Dollar Research Services are limited only to the Research Services described above.

Hard Dollar Research Services do not differ from the Research Services provided to other similarly situated institutional clients and generally consist of the provision of research reports broadly disseminated to our clients. The only difference is that we, with respect to the Hard Dollar Research Services, have agreed to accept a separate fee from you, rather than providing such Research Services incidental to other brokerage services provided by us. Global Research analysts are generally required to interact with you in the same



manner as they do with all other similarly situated institutional clients. Global Research analysts are not expected to know whether an institutional client is a Hard Dollar Research Services client. To the extent we have agreed with you to accept a separate fee for Research Services and its terms, such agreement may be confidential.

We are not providing, through the Hard Dollar Research Services or any related activities or services that we may be engaged in or provide after the date of the Service Agreement, any investment advice with respect to your investment portfolio or the management of assets. If you were to engage in securities transactions with us, we will not be acting as an investment adviser with respect to such transactions absent a specific written agreement by us to so act.

The Hard Dollar Research Services are not intended to provide investment advice, and we have no liability whatsoever for any investment decision, or results thereof, that you or any permitted user make under the Service Agreement in connection with the use of the Hard Dollar Research Services or any information or data provided therein or otherwise obtained or derived therefrom. However, the limitation contained in this paragraph will not in any way constitute a waiver or limitation of any rights accorded you under state or federal securities laws for the advisory services provided under the Service Agreement for the Hard Dollar Research Services.

The Hard Dollar Research Services will continue in effect until terminated at any time according to the terms of the Service Agreement.

The Hard Dollars Research Service is offered only to institutional clients. We also offer a wide variety of advisory services, including (but not limited to) Merrill Lynch Consults® Service, Merrill Lynch Consulting Services, Merrill Lynch Mutual Fund Advisor® Program, Merrill Lynch Personal Advisor® Program, Merrill Lynch Personal Investment Advisory® Program, Merrill Lynch Strategic Portfolio Advisor® Service, and Merrill Lynch Unified Managed Account. Other advisory services are offered by Merrill Lynch affiliates. Impersonal investment advice (general advice not tailored to the specific needs of any individual) in the form of publications or research may also be available. In addition, Merrill Lynch offers financial planning services, including (but not limited to) the Financial Foundation® Report and the Private Planning Service<sup>SM</sup>. More information about these programs and services is contained in the applicable Merrill Lynch brochure (or Merrill Lynch Form ADV, Part 2A) and is available upon request or through the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Special arrangements with certain clients to provide particular or unique services for clients of a specific Financial Advisor or branch office may also be established.

#### **INVESTMENT RESTRICTIONS**

Hard Dollar Research Services do not include any of evaluation or recommendation by Merrill Lynch of the investment guidelines or security selection for your investment portfolio or the management of assets. We will not, through the Hard Dollar Research Services, have access to or knowledge of your investment portfolio holdings and transactions, nor will we, through the Hard Dollar Research Services, compile or record client actual portfolio performance results.

#### **WRAP FEE PROGRAMS**

We do not make the Hard Dollar Research Services available through wrap fee programs.

#### **ASSETS UNDER MANAGEMENT**

As of December 31, 2012, Merrill Lynch had assets under management of \$385 billion, of which \$211 billion was managed on a discretionary basis and \$173 billion was managed on a non-discretionary basis. There are no assets under management in connection with the provision of Hard Dollar Research Services.



## **FEES AND COMPENSATION**

There is no basic fee schedule for the Hard Dollar Research Services. Fees for the provision and delivery of Hard Dollar Research Services are separately negotiated with you and vary depending on your requirements. Research Services are generally made available to our brokerage clients without charge as an incidental service in connection with our brokerage business. Moreover, fees and other requirements may vary as a result of prior policies, or your overall relationship with us. Additional components or variations of service may be available if you request and we agree, and will require the payment of additional fees.

Fees will be determined and agreed to by us and you prior to entering into the Service Agreement, and will be reflected in a schedule to the Service Agreement. The fees will be payable as described in the Service Agreement, but generally are required to be paid quarterly.

### **CALCULATION AND DEDUCTION OF ADVISORY FEES**

Unless we agree otherwise, fees for the Hard Dollars Research Service are payable in accordance with the Agreement, but generally are required to be paid as invoiced.

### **OTHER FEES AND EXPENSES**

You have no obligation to open a securities account with us, to purchase any insurance products through a sales representative (some of whom are also insurance salespersons) or to use any of the products or services we or our affiliates offer (such as credit, mortgage, employee benefits or trust services) either before or after receiving Hard Dollar Research Services. Should you decide to use or purchase our products or services or those of an affiliate, we, our affiliates and certain of our employees will receive fees and compensation for these products and services. Such fees and compensation may include commissions, spreads, markups, or markdowns and mutual fund advisory and distribution fees.

In addition to fees for Hard Dollar Research Services, if we are required to collect or pay any sales, gross receipts, excise or use taxes that are levied on us for providing Hard Dollar Research Services, then you will be obligated to pay or reimburse us for such taxes.

### **PREPAID FEES**

We do not charge fees for the Hard Dollar Research Services in advance.

### **COMPENSATION FOR THE SALE OF SECURITIES**

Our personnel involved in Hard Dollars Research Services arrangements are not compensated based on the sale of securities in connection with providing services for Hard Dollar Research Services.

We, our affiliates and employees benefit from the compensation paid to us. You are not required to utilize any of our brokerage or investment advisory service. That said, you may use other products or services available from or through us and, in such case, pay additional compensation. Sales representatives offering these services receive compensation from us. This practice creates a potential conflict of interest that may give us and our sales representatives an incentive to recommend other advisory services based on the compensation received, rather than on your needs. See section entitled *Participation or Interest in Client Transactions* for more information about the receipt of compensation for the sale of securities and other investment products. We address this conflict through disclosure in this Brochure. In addition, Global Research has extensive policies regarding potential conflicts of interest affecting Global Research personnel.



### **CONDUCTING BUSINESS THROUGH MERRILL LYNCH**

You are neither required to act on any of the research information provided through the Hard Dollar Research Services, nor are you required to transact business with us if you choose to implement any aspects of a Hard Dollar Research Services described above.

As noted above, Hard Dollar Research Services are completed upon the delivery of such Hard Dollar Research Services. Thereafter, if you choose to implement any of the investment recommendation or strategies made in the Hard Dollar Research Services through your Merrill Lynch brokerage account, we will be acting solely as a broker-dealer, not as an investment adviser (unless otherwise agreed in writing). In executing transactions for your accounts in accordance with your instructions, we, acting as a broker-dealer, may act as agent or as principal for our own account.

### **LIMITATIONS ON MERRILL LYNCH'S ROLE AND THE HARD DOLLAR RESEARCH SERVICES**

We are dually registered as a broker-dealer and an investment adviser, and we offer both brokerage and investment advisory services. To the extent that we may be deemed to be acting as an investment adviser under the Service Agreement in connection with the Hard Dollar Research Services, your relationship with us pursuant to the Hard Dollar Research Services is strictly limited to the provision of the Hard Dollar Research Services, as described in the Service Agreement, and does not extend to any brokerage, investment advisory or other arrangements or services that you may have, or enter into, with us or any of our affiliates. If you desire to engage us for additional services, whether brokerage, investment advisory or otherwise, you should carefully consider the differences among these types of services before using them and must enter into a separate agreement for such services. Any such arrangement will be separate and apart from any relationship created by the Service Agreement.

Without limiting the generality of the foregoing, you should understand that we are not providing, through Hard Dollar Research Services or any related activities or services that we may be engaged in or provide after the date of the Service Agreement, any investment advice with respect to your investment portfolio or management of assets. If you were to engage in securities transactions with us, we would not be acting as an investment adviser with respect to such transactions absent a specific written agreement by us to so act.

We are also a broker-dealer and offer brokerage services to clients, including trade execution and custody. There are important differences between brokerage and investment advisory services, including the type of advice and assistance provided, the fees charged, and the rights and obligations of the parties. Brokerage services are regulated under different laws and rules than advisory services. Among our many obligations as a broker-dealer, we will execute transactions upon your instruction, deal fairly with you, and make recommendations that are suitable in light of your stated risk tolerance, financial needs and investment objectives. As an investment adviser, we must act solely in your best interest, provide certain specific disclosures and generally act in accordance with the standards of a fiduciary as that term is interpreted under applicable law. Of course, the above is an exceedingly brief summary, and numerous laws and regulations apply to each capacity as well as to the specific products or services being provided. It is important for you to understand these differences, particularly when determining which service or services you might select. You should carefully read all the applicable agreements and disclosures for any other services you are considering. For additional information, please contact GCM at (646) 855-4893.

### **SOURCES OF REVENUE**

As a broker-dealer, we offer a wide variety of securities and brokerage services. Our principal sources of income, which include commissions and other compensation for the sale of investment products, are derived from our business as a broker-dealer. Less than 1% of our revenues are expected to be generated from the Hard Dollar Research Services on an annual basis.





### **FEE OFFSET FOR EXECUTION CHARGES**

We do not reduce our fees to offset commissions or markups you may bear in connection with your implementation of the investment recommendations or strategies made in the Hard Dollar Research Services.

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Neither Merrill Lynch nor our employees receive performance-based fees for the Hard Dollar Research Services.

### **TYPES OF CLIENTS**

The provision of Hard Dollar Research Services are considered when requested by institutional clients, such as pension funds, mutual funds, insurance companies, hedge funds, private equity funds, trusts and banks, and/or their consultants and investment advisers. Hard Dollar Research Services arrangements will be considered only if requested by an institutional client on its own volition. We do not solicit or market Hard Dollar Research Services. You are not required to open or maintain an account with us in order to receive Hard Dollar Research Services.

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Hard Dollar Research Services are impersonal in nature and cover a broad range of securities and other investments. Research reports and other Hard Dollar Research Services may be based on one or more of the following methods of analysis: fundamental, quantitative, technical, strategic, macro or economic. Hard Dollar Research Services do not provide any investment advice relating to your investment portfolio or the management of assets.

Global Research analysts perform analysis based on publicly available market, industry and company data. Research analysts may also meet or speak with our management and third parties to gather information and data for the provision of Research Services, all as allowable under applicable federal securities regulations.

### **CLIENT RESPONSIBILITIES**

We will only provide the Hard Dollar Research Services according to the terms of the Service Agreement. Changes to the Service Agreement require a written amendment.

Any information relating to the tax status of financial instruments discussed in the Hard Dollar Research Services reports is not intended to provide tax advice or to be used by anyone to provide tax advice. You are urged to seek tax advice based on your particular circumstances from an independent tax professional.

### **RISK DISCLOSURE**

You should understand that in providing Hard Dollar Research Services, we may also rely on third party sources for information that we believe to be reliable in producing Hard Dollar Research Services reports, but in no way do we guarantee the quality, accuracy and/or completeness of such third party information or the Hard Dollar Research Services or any other information or data related thereto or you or any other authorized user or other person or entity otherwise obtain or derive in connection with the use of the Hard Dollar Research Services. We make no express or implied warranties, and disclaim all warranties of merchantability or fitness for a particular purpose or use, with respect to any part of the Hard Dollar Research Services or any other information or data related thereto. Without limiting any of the foregoing, in no event will we or any of our partners, affiliates, employees, officers, directors or agents have any liability for an indirect, punitive, special or consequential damages (including lost profits) to you or any other person or



entity, even if we have been notified of the possibility of such damages.

If you choose to implement any of the investment recommendation or strategies made in the Hard Dollar Research Services, you will be subject to investment risk and you may lose money. Brokerage accounts are not bank accounts. They are not insured or otherwise protected by the Federal Deposit Insurance Corporation, are not an obligation of any bank or any affiliate of Merrill Lynch; and are not endorsed or guaranteed by BANA, Merrill Lynch, or any bank or any affiliate of Merrill Lynch. You should further understand that all investments involve risk (the amount of which may vary significantly), that performance of any kind can never be predicted or guaranteed and that the value of your portfolios will fluctuate due to market conditions and other factors.

#### **MATERIAL RISKS FOR SIGNIFICANT INVESTMENT STRATEGIES**

Following is a summary of the material risks associated with Hard Dollar Research Services:

- Information provided in connection with Hard Dollar Research Services is for general use only. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to securities or investments. Hard Dollar Research Services do not provide investment advice and the information provided by Hard Dollar Research Services does not take into account the specific investment objectives, financial situation and the particular needs of any specific person.
- Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.
- Research reports may contain short-term trading ideas, which highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the securities or financial instruments described therein. Short-term trading ideas are different from and do not affect the fundamental rating of the securities or financial instrument. Short-term trading ideas may be more or less positive than the fundamental rating.
- We are aware that the implementation of the ideas expressed in the report may depend upon your ability to “short” securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting “short selling” in many jurisdictions. You are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in the report.
- Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in the report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.
- We or our affiliates are regular issuers of traded financial instruments linked to securities that may have been recommended in the Hard Dollar Research Services report. We or our affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in the research report.



- We, through business units other than Global Research, may have issued and may in the future, issue trading ideas or issue market commentary that are inconsistent with, and reach different conclusions from, the information presented in the research report. Such ideas reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and we are under no obligation to ensure that such other trading ideas are brought to the attention of any recipient of the research report.
- Research reports are based on public information that may not reflect information known to, professionals in other areas of our business, including investment banking personnel.
- Securities rated below investment grade are speculative investments.
- FX trading and strategies involve significant risk and investor must be able to absorb substantial losses.
- Employing any listed option strategy is a finite strategy. There are many risks, the most severe of which is the total loss of capital invested and delivery/assignment risk, all of which can occur in a short period.
- Research reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current.

## DISCIPLINARY INFORMATION

In the past, we have entered into certain settlements with our regulators and other third parties and have been the subject of adverse legal and disciplinary events. Below are summaries of certain events that may be material to your decision of whether to retain us for your investment advisory needs. Please note that certain disclosures discuss disciplinary events associated with Banc of America Investment Services, Inc. ("BAI") and Banc of America Securities LLC ("BAS"). BAI merged with Merrill Lynch on October 23, 2009, and BAS merged with Merrill Lynch on November 1, 2010. In addition to the descriptions below, you can find additional information regarding these settlements in Part 1 of Merrill Lynch's Form ADV at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

On June 21, 2012, Merrill Lynch, without admitting or denying the findings, entered into an AWC with FINRA related to the following five issues: (1) Merrill Lynch failed to have an adequate supervisory system to ensure that clients in certain investment advisory programs were billed in accordance with applicable contract and disclosure statements, and, as a result, overcharged certain client accounts unwarranted fees from April 2003 to December 2011; the client accounts impacted were less than 5% of Merrill Lynch's total advisory accounts, and the fees overcharged represented less than one-half of 1% (\$32,174,369) of the total advisory fees billed during that period; all impacted clients have been reimbursed; (2) between July 2006 and November 2010, Merrill Lynch failed to send contemporaneous and/or periodic trade confirmations to certain client accounts for ten investment advisory programs; (3) between 1992 and June 2011, Merrill Lynch did not include or accurately state whether Merrill Lynch acted as an agent or a principal on trade confirmations and account statements relating to certain mutual fund transactions; (4) between 2007 and 2010, Merrill Lynch, either directly or through third-party vendors, failed to deliver proxy materials to certain clients or to their designated investment advisers, and to have an adequate supervisory system to detect its failure to deliver proxies; the clients impacted constituted less than 1% of Merrill Lynch's clients during that period; and (5) between October 2001 and June 2010, Merrill Lynch failed to send margin risk disclosure statements and/or business continuity plans to certain clients upon the opening of their accounts; the clients



impacted constituted less than 1% of Merrill Lynch's clients during that period. In determining the appropriate sanctions, FINRA considered Merrill Lynch's internal review through which it identified the violations, the remedial measures that Merrill Lynch took to correct its systems and procedures, and Merrill Lynch's efforts to provide remediation to affected clients. Merrill Lynch consented to the imposition of a censure and a fine of \$2.8 million.

On October 4, 2011, Merrill Lynch entered into a consent agreement with FINRA regarding the following events. FINRA alleged that Merrill Lynch failed to have a supervisory system to ensure that all accounts in which an employee either had a financial interest or over which the employee had control were monitored and reviewed for potential misconduct. In addition, FINRA found that Merrill Lynch failed to establish, maintain and enforce written procedures to adequately supervise a registered representative who was subsequently found to have used a business account at the firm to implement a fraudulent scheme. Without admitting or denying the findings, Merrill Lynch consented to the entry of findings, a censure, and a fine of \$1,000,000.

On June 6, 2009, the United States District Court for the Southern District of New York entered a judgment enjoining BAI and BAS from violating, directly or indirectly, Section 15(c) of the Exchange Act. The SEC had filed a complaint alleging that BAI and BAS misled customers regarding the fundamental nature and increasing risks associated with auction rate securities ("ARS") underwritten, marketed and sold by BAS and BAI and that by engaging in such conduct, BAI and BAS had violated Section 15(c) of the Exchange Act. Without admitting or denying the allegations, BAI and BAS entered into a consent, whereby they agreed to a series of undertakings designed to provide relief to "individual investors" (as defined in the consent) including: (1) through their affiliate, offering to purchase at par from individual investors certain ARS; (2) agreeing to use reasonable efforts to identify individual investors who sold certain ARS below par, and to pay such investors the difference between par and the price at which they sold the securities; (3) agreeing to participate in a special arbitration process for the purpose of arbitrating any individual investor's consequential damage claim related to its investment in ARS; (4) agreeing to refund certain refinancing securities through the firms; and (5) undertaking to make their best efforts to work with issuers and other interested parties to seek to provide liquidity solutions for institutional investors that are not considered "individual investors." Two similar regulatory actions involving the marketing and sale of ARS occurred on January 10, 2012: (1) Merrill Lynch (as successor by merger to BAS and BAI, the "Respondents") agreed to a settlement with the Illinois Securities Department (the "Department"); and (2) Merrill Lynch agreed to a settlement with the North Carolina Department of the Secretary of State, Securities Division (the "Division"). In both actions, it was alleged that inappropriate marketing and sales of ARS occurred without adequately informing certain customers of the increased risks of illiquidity associated with ARS. Both the Department and the Division of the respective states alleged that, through the aforementioned conduct, there occurred dishonest and unethical practices in the offer and sale of securities and failure to supervise agents resulted. In the Illinois action, the Respondents agreed, among other things, to repurchase at par certain illiquid ARS held by certain clients of Merrill Lynch. Additionally, the Respondents agreed to pay a total fine of \$1,578,320.87 to the State of Illinois representing Illinois's portion of a total civil penalty of \$50,000,000 that will be distributed among the states and U.S. territories that enter into similar administrative or civil consent orders related to ARS. With respect to the North Carolina action, Merrill Lynch agreed, among other things, to repurchase at par certain illiquid ARS held by certain clients of Merrill Lynch. Additionally, Merrill Lynch agreed to pay a total fine of \$3,193,552.24 to the Division representing its portion of a total civil penalty of \$125,000,000 that will be distributed among the states and U.S. territories that enter into similar administrative or civil consent orders related to ARS.



On March 11, 2009, the SEC issued an order against Merrill Lynch alleging that from 2002 to 2004, several Merrill Lynch retail brokers permitted day traders to hear confidential information regarding Merrill Lynch institutional customers' unexecuted orders as they were transmitted over Merrill Lynch's squawk box system. According to the SEC, Merrill Lynch lacked written policies or procedures to limit access to the equity squawk box, to track which employees had access to the equity squawk box or to monitor employees' use of the equity squawk box in violation of Section 15(f) of the Exchange Act and Section 204A of the Advisers Act. Without admitting or denying the SEC's findings, Merrill Lynch consented to the entry of the order that: (1) found violations of Section 15(f) of the Exchange Act and Section 204A of the Advisers Act for allegedly failing to maintain written policies and procedures reasonably designed to prevent the misuse of customer order information; (2) required that Merrill Lynch cease and desist from committing or causing any future violations of the provisions charged; (3) censured Merrill Lynch; (4) imposed a \$7,000,000 civil money penalty; and (5) required Merrill Lynch to comply with certain undertakings regarding the enhancement of certain policies and procedures.

On January 30, 2009, the SEC issued an order against Merrill Lynch regarding the Merrill Lynch Consulting Services program and the offering of those services through a Florida branch office for a period of several years concluding in 2005. The Order found that material misrepresentations had been made and certain conflicts of interest not disclosed, and that Merrill Lynch had not maintained adequate records or reasonably supervised certain Florida investment advisory representatives. Without admitting or denying the non-jurisdictional findings thereof, Merrill Lynch consented to a censure, to cease and desist from violations of sections 204 and 206(2) of the Advisers Act and Rule 204-2(a) (14) thereunder, and a fine of \$1,000,000. In accepting the settlement, the SEC noted the voluntary and significant remedial acts promptly undertaken by Merrill Lynch.

On May 1, 2008, the SEC issued an administrative order in which it found that BAI had willfully violated Sections 17(a)(2) and 17(a)(3) of the Securities Act, Sections 206(2), 206(4) and 207 of the Advisers Act and Advisers Act Rule 206(4)-1(a)(5) for failing to disclose to clients that in selecting investments for discretionary mutual fund wrap fee accounts, it favored two mutual funds affiliated with BAI. In the Order the SEC also found that Columbia Management Advisors, LLC ("Columbia Management"), as successor in interest to Banc of America Capital Management, LLC willfully aided and abetted and caused BAI's violations of Sections 206(2) and 206(4) of the Advisers Act, and Advisers Act Rule 206(4)-1(a)(5). In the order, BAI and Columbia Management were censured and ordered to cease and desist from committing or causing such violations and future violations. In addition, BAI was ordered to pay disgorgement plus prejudgment interest in the aggregate amount of \$793,773.00 to certain entities specified in the Order, and a civil monetary penalty of \$2,000,000; and Columbia Management was ordered to pay disgorgement plus prejudgment interest in the aggregate amount of \$516,382 to certain entities specified in the Order, and a civil monetary penalty of \$1,000,000. BAI and Columbia Management consented to the Order without admitting or denying the SEC's findings. BAI also agreed to certain undertakings contained within the Order.

On February 14, 2008, Merrill Lynch consented to an AWC issued by FINRA. FINRA alleged that from at least January 2001 until January 2006, as a result of certain operational and supervisory deficiencies Merrill Lynch failed to timely and consistently update the firm's record system relating to certain investment advisory and fee-based accounts. When clients change investment advisers or terminated enrollment in certain investment advisory or fee-based accounts, Merrill Lynch failed to consistently make changes in account proxy delivery addresses and/or remove traits that suppressed trade confirmation delivery in the firm's record systems. Additionally, Merrill Lynch failed to maintain written supervisory procedures and a reasonable system of follow-up and review with respect to such operational changes. Without admitting or denying the findings, Merrill Lynch consented to a censure and a fine of \$175,000.



On March 4, 2005, Merrill Lynch entered into a consent order with the State of New Jersey Office of the Attorney General Department of Law and Public Safety and the New Jersey Bureau of Securities ("Attorney General"). The Attorney General alleged: (1) market timing conduct by three Merrill Lynch Financial Advisors engaged in market timing on behalf of their principal client, a hedge fund and that despite warnings from supervisors that they were violating Merrill Lynch's policies, the Financial Advisors continued to market time for the client until they were fired in October 2003, using among other things, multiple accounts and undisclosed agreements to conduct and disguise their trading; (2) that Merrill Lynch failed to adequately supervise certain activities in connection with the conduct described above including failure to keep adequate books and records in violation of the Exchange Act and New Jersey law; (3) the client entered into variable annuity contracts and certain other variable life insurance contracts with certain non-proprietary insurance carriers through the Financial Advisors to engage in short term trading in the investment sub-accounts of these products and although the client's reallocation instructions were relayed through the Financial Advisors to the insurance companies, Merrill Lynch gave no specific instruction to the Financial Advisors concerning the reallocation of the underlying sub-accounts of variable products; and (4) that Merrill Lynch failed to adequately enforce its established policy prohibiting market timing. Without admitting or denying the findings in the order, Merrill Lynch agreed to pay a civil monetary penalty of \$10 million and to certain undertakings including implementation of new procedures to maintain, as a required book and record under New Jersey and federal securities laws, records of all client reallocation requests made through a Merrill Lynch employee that involve mutual funds held as sub-accounts of variable annuity products of outside insurance carriers.

On February 9, 2005, pursuant to an offer of settlement by BAS in which it neither admitted nor denied the findings, the SEC issued an administrative order. The SEC found that from July 2000 through July 2003, BAS, Banc of America Capital Management, LLC ("BACAP") and BACAP Distributors, LLC ("BACAP Distributors") facilitated market timing and late trading by some introducing broker-dealers and a hedge fund at the expense of shareholders of Nations Funds and other mutual fund families, provided account management tools and other assistance, and enabled introducing broker-dealers to conceal their client's market timing activities from mutual funds. In the order, BAS was: (1) censured; (2) ordered to cease and desist from committing or causing any present or future violations of 17(a) of the Securities Act, 10(b), 15(c) and 17(a) of the Exchange Act and Rules 10b-5, 15c1-2, and 17a-4 thereunder and Rule 22c-1, as adopted under 22(c) of the Investment Company Act, and from causing any present or future violations of 34(b) of the Investment Company Act and 206(1) and 206(2) of the Advisers Act; (3) ordered to pay, jointly and severally with BACAP and BACAP Distributors \$250 million in disgorgement plus a civil monetary penalty of \$125 million. BAS also agreed to comply with certain undertakings including: (1) maintaining a compliance and ethics oversight infrastructure having, among other things, a code of ethics oversight committee, an internal compliance controls committee, a senior level compliance officer for conflicts of interest and a corporate ombudsman; (2) retaining an independent compliance consultant to, among other things, review compliance, supervisory and other policies and procedures and adopt such procedures; (3) undergoing third party compliance review every other year; and (4) retaining an independent distribution consultant.

On April 28, 2003, as part of a joint settlement with the SEC, NYSE and NASD arising from a joint investigation by the SEC, NYSE and NASD into research analysts' conflicts of interest, Merrill Lynch, without admitting or denying the allegations of the complaint filed by the SEC, consented to the entry of a final judgment ("Final Judgment"). Pursuant to the settlement, which was entered on October 31, 2003 and modified on March 15, 2010, Merrill Lynch: (1) was permanently enjoined from violating Section 15(c) of the Exchange Act and Rule 15c1-2 thereunder, NASD Conduct Rules 2110, 2210 and 3010, and NYSE Rules 342, 401, 472 and 476; (2) was ordered to pay a penalty of \$100,000,000, which was deemed satisfied by prior payments to the states in a related proceeding; (3) was ordered to pay substantial amounts for third party research and investor education; and (4) was ordered to comply with certain additional undertakings. In



a related disciplinary event, Merrill Lynch (as successor by merger to BAS) entered into an amended offer of settlement with the SEC on October 9, 2012. The settlement stems from an SEC Order dated March 14, 2007 against BAS (the “2007 BAS Order”) claiming that BAS investment bankers inappropriately influenced equity research analysts, resulting in the publication of materially false and misleading research during the period of January 1999 through December 2001. The 2007 BAS Order censured BAS and ordered BAS to: (i) cease and desist from committing or causing any violations or future violations of Section 15(c) and 15(f) of the Exchange Act, and Rule 15c1-2(a); (ii) pay \$26 million in disgorgement and penalties into a fair fund for distribution to its affected customers; (iii) retain an independent consultant to conduct a comprehensive review of the firm’s internal controls to prevent the misuse of material nonpublic information concerning BAS research; (iv) certify to the SEC’s staff in the second year following the issue of the 2007 BAS Order that BAS had established and continued to maintain Exchange Act Section 15(f) policies, practices, and procedures consistent with the findings of the 2007 BAS Order; and (v) comply with Addendum A to the 2007 BAS Order, which implemented certain structural changes to the operations of the firm’s equity research and investment banking departments. In the Merrill Lynch action, the District Court, on March 15, 2010, modified Addendum A to the October 31, 2003 Final Judgment by, among other things, removing similar provisions that remained in Addendum A to the 2007 BAS Order. The 2007 BAS Order, which remains in effect and binding on Merrill Lynch (as successor by merger to BAS), was modified on October 9, 2012, to strike Addendum A and provide that Merrill Lynch analysts, including ex-BAS analysts, must comply with the Final Judgment.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Merrill Lynch, a wholly-owned subsidiary of Bank of America, is a leading global investment banking firm and a registered broker-dealer, investment adviser and futures commission merchant. In the United States, Merrill Lynch acts as a broker (i.e., agent) for corporate, institutional and governmental and private clients and as a dealer (i.e., principal) in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. Merrill Lynch also acts as a broker and/or a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, financial futures contracts, and options. The futures business and foreign exchange activities are conducted through Merrill Lynch and other affiliates. Merrill Lynch operates the firm’s U.S. retail branch system, and also provides financing to clients, including margin lending and other extensions of credit as well as a wide variety of financial services, such as securities clearing, retirement services, and custodial services. As a registered adviser, Merrill Lynch completes a Form ADV, which contains additional information about itself, Bank of America and their affiliates. Information is available through publicly available filings at the SEC or at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

For purposes of Form ADV Part 2, certain Merrill Lynch management persons are registered as registered representatives or associated persons of Merrill Lynch. In the future, additional Merrill Lynch personnel may be considered management persons and, as such, may be registered, or have applications pending to register, as registered representatives and associated persons of Merrill Lynch to the extent necessary or appropriate to perform their job responsibilities.

ML&Co., a wholly-owned subsidiary of Bank of America, through our subsidiaries and affiliates, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending and related products and services on a global basis. These products and services include securities brokerage, trading and underwriting; investment banking, strategic advisory services (including mergers and acquisitions) and other corporate finance activities; wealth management products and services including financial, retirement and generational planning; asset management and investment advisory and related recordkeeping services; origination, brokerage, dealer and related activities in swaps, options, forwards, exchange-traded futures, other derivatives, commodities and foreign exchange products; securities



clearance, settlement financing services and prime brokerage; private equity and other principal investing activities; proprietary trading of securities, derivatives and loans; banking, trust and lending services, including deposit-taking, consumer and commercial lending, including mortgage loans, and related services; insurance and annuities sales and research across the following disciplines: global equity strategy and economics, global fixed-income and equity-linked research, global fundamental equity research, and global wealth management strategy. Bank of America is subject to the reporting requirements of the Exchange Act and additional information about Bank of America can be found in publicly available filings with the SEC.

We, through our sales representatives, may suggest or recommend that clients, including Hard Dollar Research Services clients, use our securities account, execution and custody or other services, or such services of an affiliate. Similarly, sales representatives may suggest or recommend that clients purchase our products or products of an affiliate. Where Merrill Lynch's or our affiliate's services are used or products are purchased by clients, we and our affiliates will receive fees and compensation. Sales representatives may, as permitted by applicable law, receive compensation (the amount of which may vary) in connection with these products and services.

We address these conflicts through disclosure in this Brochure. In addition, we have established a variety of restrictions, procedures and disclosures designed to address potential conflicts of interest – both those arising between and among client accounts as well as between client accounts and our business.

We do not recommend or select other investment advisers in connection with Hard Dollar Research Services.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **CODE OF ETHICS**

We have adopted an Investment Adviser Code of Ethics (the "Code of Ethics") covering our personnel who are involved in the operation and offering of investment advisory services. The Code of Ethics is based on the principle that clients' interests come first, and requires employees to meet the high standards that we follow in conducting our business with integrity and professionalism. The Code of Ethics covers such topics as the:

- Requirement that all employees comply with all applicable securities and related laws and regulations;
- Reporting and clearance of employee personal trading;
- Prevention of misuse of material non-public information; and
- Obligation to report possible violations of the Code of Ethics to management or other appropriate personnel.

All covered personnel must certify receipt of the Code of Ethics. We will provide a copy of the Code of Ethics to you upon request.

In addition, we have extensive policies and procedures designed to address potential conflicts of interest affecting Global Research personnel. We also have imposed policy restrictions on all personnel regarding transactions for their own accounts and accounts over which they have control or a beneficial interest. One such restriction is the "24-Hour Rule" under which employees, in certain instances such as where a research opinion has changed or where a new opinion has been issued, are prohibited from trading until 24 hours after the information has been made available to the public. In addition, we have special policies requiring that certain personnel obtain specific approval of their securities transactions and have implemented procedures for monitoring these transactions as well as those of all employees.



**PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

In the United States, Merrill Lynch acts as a broker (i.e., agent) for corporate, institutional and governmental and private clients and as a dealer (i.e., principal) in the purchase and sale of corporate securities, primarily equity and debt securities traded on exchanges or in the over-the-counter markets. We also act as a broker and/or dealer in the purchase and sale of mutual funds, money market instruments, government securities, high-yield bonds, municipal securities, financial futures contracts and options. We and other affiliates also conduct the futures business and foreign exchange activities. We operate the firm's U.S. retail branch system, and also provide financing to clients, including margin lending and other extensions of credit as well as a wide variety of financial services, such as securities clearing, retirement services and custodial services. As a result of the involvement in multiple business activities, we and our employees may have interests unrelated to Hard Dollar Research clients which may give rise to potential conflicts of interest, including those discussed below. This discussion does not seek to identify all actual or potential conflicts. Information about certain additional conflicts is described throughout this Brochure and in many of the contracts and offering documents that govern the specific products and services we offer.

We, through our sales representatives, may suggest or recommend that Hard Dollar Research Services clients also use Merrill Lynch securities accounts, execution and custody or other services, or such services of an affiliate. Similarly, sales representatives may suggest or recommend that clients purchase our products or products of an affiliate. Where Merrill Lynch's or our affiliate's services are used or products are purchased by clients, we and our affiliates will receive fees and compensation. Sales representatives may, as permitted by applicable law, receive compensation (the amount of which may vary) in connection with these products and services. Compensation received in connection with clients' purchase or sale of stocks, bonds, mutual funds, other securities or insurance products through us or our affiliates may include commissions, spreads, markups and markdowns, and distribution or other fees. We will also benefit from the possession or use of free credit balances in client accounts, subject to the restrictions imposed by Rule 15c3-3 under the Exchange Act.

As a broker-dealer effecting transactions on behalf of clients, including those clients who receive Hard Dollar Research Services, we or an affiliate may act as agent or as principal for our own account, as permitted by applicable law. Similarly, we or an affiliate may, in transactions involving such clients' securities, act as agent while also representing another client on the other side of the transaction. In addition, we or our affiliates may have a position in, or enter purchase or sale orders for, securities recommended to clients in the normal course of our business as a broker-dealer. We and/or our affiliates may profit from these positions or transactions in securities.

We, acting in our broker-dealer capacity, may recommend that Hard Dollar Research Services clients invest in a variety of limited partnerships and limited liability companies, for which certain of our affiliates may act as general partners or managing members. The investments of the limited partnerships may vary but include, without limitation, securities, real estate and futures.

We address these conflicts through disclosure in this Brochure. In addition, we have established a variety of restrictions, procedures and disclosures designed to address potential conflicts of interest – both those arising between and among client accounts as well as between client accounts and our business. For example, our personnel also are subject to personal trading restrictions as detailed in our policies and procedures and Code of Ethics. These policies and procedures and the Code of Ethics require our sales representatives to pre-approve certain securities transactions, disclose their investment accounts, and provide or cause Merrill Lynch to receive annual holdings reports and quarterly transaction reports.

**INVESTMENTS IN SECURITIES BY MERRILL LYNCH AND OUR PERSONNEL**

We and our affiliates act in a variety of capacities to a wide range of clients. From time to time in the course of those duties, confidential information may be acquired that cannot be divulged or acted upon for advisory or other clients. Similarly, we may give advice or take action with regard to certain clients, including Hard Dollar Research Services clients, which may differ from that given or taken with regard to other clients. This includes the advice given or actions taken with respect to certain securities or investment managers. In some instances, the actions taken by affiliates with respect to similar services and programs may conflict with the actions taken by us. This is due to, among other things, the differing nature of the affiliate's investment advisory service and differing processes and criteria upon which determinations are made.

In addition, we or our affiliates may have a position in or enter into "proprietary" transactions in securities purchased or sold for clients in the normal course of our business as a broker-dealer. We or our affiliates may benefit from those securities positions or transactions.

Many of the conflicts related to participation or interest in client transactions and personal trading are less pronounced in the context of Hard Dollar Research Services. We nevertheless attempt to address conflicts of interest through disclosure in this Brochure and other disclosure documents. In addition, we have established a variety of restrictions, procedures and disclosures designed to address potential conflicts of interest – both those arising between and among client accounts as well as between client accounts and our business. For example, our personnel also are subject to personal trading restrictions as detailed in our policies and procedures and Code of Ethics. These policies and procedures and the Code of Ethics require our sales representatives to pre-approve certain securities transactions, disclose their investment accounts, and provide or cause Merrill Lynch to receive annual holdings reports and quarterly transaction reports.

**BROKERAGE PRACTICES**

We do not select broker-dealers or engage in securities transactions in connection with the Hard Dollar Research Services.

**REVIEW OF ACCOUNTS**

The Hard Dollar Research Services do not provide any personalized investment advice with respect to your investment portfolio or the management of assets. Accordingly, there are no account reviews. We do not provide regular reports in connection with the Hard Dollar Research Services. That said, we will make available to you research reports and other research products in accordance with the Service Agreement.

**CLIENT REFERRALS AND OTHER COMPENSATION****OTHER COMPENSATION**

We and our affiliates may have a variety of banking, financial, or service relationships with the unaffiliated issuers of the securities covered by the Hard Dollar Research Services. These relationships may include acting as an underwriter for the issuers of the securities covered by the Hard Dollar Research Services. In such relationships, we and our affiliates may receive compensation. We disclose in our research reports, in accordance with applicable law and regulation, our conflicts of interest and those of our research analysts that are or may be material in the context of the relevant report. In addition, Global Research has extensive policies and procedures regarding potential conflicts of interest affecting Global Research personnel. Key provisions of the policies and procedures currently include the following:

- **Purpose, Content and Objectivity of Research.** All research published by Global Research is required to be impartial and to be produced in conditions where conflicts that might impact on the objectivity of the



Research Services are properly managed. Research analysts are required to observe high standard of integrity and ethical behavior, to act at all times in the interests of investing clients and to report any attempt to influence their view.

- **Identification of Conflicts.** Our policies and procedures are designed to assist us in identifying possible conflicts of interest that might affect or raise questions about the impartiality of research. This includes policies and procedures to regulate the flow of information between Global Research and other business groups.
- **Supervision and Remuneration of Research Analysts.** Research analysts are compensated only for those activities and services that benefit our clients and Global Research has exclusive responsibility for determining research analyst's compensation. Research analysts do not report to investment banking and investment banking personnel do not have input into the evaluation and compensation of research analysts. Global Research operates independently from other business groups.
- **Restrictions on Research Analysts' Activities.** Research analysts are restricted from activities that could prejudice, or appear to prejudice, the independence of their research.
- **Inducements and Inappropriate Influences.** Research analysts are not permitted to promise, imply, communicate, offer or accept any inducement in respect of their publication of research.
- **Timing and Dissemination of Research Reports.** Research reports and other commentary are required to be simultaneously disseminated to the sales force and clients. We may also restrict the publication of research in connection with our role in certain offerings or transactions and as otherwise required by applicable laws.
- **Coverage Decisions.** The decision as to whether to initiate, continue or terminate coverage resides solely with the management of Global Research. We have adopted a policy that neither we nor any of our employees may, directly or indirectly, retaliate against a research analyst in respect of his or her decision to publish any research report or commentary or for the content of that research.
- **Disclosure of Interests.** Our research contains certain disclosures as required by various regulatory requirements.
- **Research Analysts' Personal Interest and Personal Account Dealing.** All securities transactions and investments by Global Research employees must be pre-cleared. Research employees are generally not permitted to engage in securities transactions in their sector of coverage and may not otherwise deal in a way where any transaction would constitute a conflict of interest with their production of research.

#### **COMPENSATION FOR CLIENT REFERRALS**

Our employees may refer advisory clients to BANA, including its private bank, U.S. Trust, Bank of America Private Wealth Management, and other affiliates for products and services. Similarly, employees of BANA and its affiliates may refer clients to us for brokerage or advisory services. These referrals may involve the payment of referral fees between Merrill Lynch and BANA or its affiliates.

#### **CUSTODY**

We do not have custody of client funds and securities in connection with the Hard Dollar Research Services.



### **INVESTMENT DISCRETION**

Hard Dollar Research Services do not provide any investment advice to your investment portfolio or the management of assets. It also does not engage in securities transactions on behalf of you. Accordingly, we do not accept discretionary authority in connection with the Hard Dollar Research Services.

### **VOTING CLIENT SECURITIES**

The Hard Dollar Research Services does not involve the voting of client securities.

### **FINANCIAL INFORMATION**

Not applicable.



## GLOSSARY

“ADR” means American Depositary Receipt, which is a receipt for shares of a foreign company held by a U.S. Financial Institution that entitles you to rights and obligations of the underlying shares, including dividends and capital gains and losses.

“Advisers Act” means the Investment Advisers Act of 1940, as amended.

“AWC” means a FINRA Letter of Acceptance, Waiver and Consent.

“BANA” means Bank of America, N.A.

“Bank of America” means Bank of America Corporation.

“Brochure” means the Merrill Lynch program brochure relating to the Hard Dollar Research Services, as amended or updated from time to time. The Brochure is also referred to as the Disclosure Statement

“Code of Ethics” means Merrill Lynch’s Investment Adviser Code of Ethics.

“Disclosure Statement” means the Merrill Lynch program brochure relating to the Hard Dollar Research Services, as amended or updated from time to time. The Disclosure Statement is also referred to as the Brochure.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Financial Advisor” means a Merrill Lynch Financial Advisor.

“FINRA” means the Financial Industry Regulatory Authority, Inc.

“GCM” means the Global Commission Management group.

“Global Research” means Merrill Lynch’s Global Research group.

“Hard Dollar Research Services” means Research Services that Merrill Lynch Institutional Sales, through GCM group, together with Global Research, provides to clients for a fee.

“Investment Company Act” means the Investment Company Act of 1940, as amended.

“Merrill Lynch,” “we,” “us,” or “our” means Merrill Lynch, Pierce, Fenner & Smith Incorporated.

“ML&Co.” means Merrill Lynch & Co., Inc.

“Research Services” means research reports and other products and services Merrill Lynch’s Global Research group offers.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“Service Agreement” means the service agreement between you and Merrill Lynch, as amended or updated from time to time.

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