



ANNUAL DISCLOSURE STATEMENT

Anti-Money Laundering

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

What types of information will I need to provide? When you open an account, your firm is required to collect information such as the following from you: your name, address, date of birth, identification number: (a) US Citizen: taxpayer identification number (social security number or employee identification number), or (b) Non-US Citizen: taxpayer identification number, passport number and country of issuance, alien identification card number, or government- issued identification showing nationality, residence, and a photograph of you. You may also need to show your driver's license or other identifying documents. A corporation, partnership, trust or other legal entity may need to provide other information such as its principal place of business, local office, employer identification number, certified articles of incorporation, government issued business license, a partnership agreement or a trust agreement.

US Department of the Treasury, Securities and Exchange Commission, FINRA and NYSE regulation currently require you to provide additional information, such as net worth, annual income, occupation, employment information, investment experience and objectives, and risk tolerance.

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

Penson Financial Services, Inc. & Penson GHCO Privacy Policy

Penson Financial Services, Inc. carries your account as a clearing broker by arrangement with your broker/dealer as introducing broker. At Penson, we understand that privacy is an important issue for customers of our introducing firms. It is our policy to respect the privacy of all accounts that we maintain as clearing broker and to protect the security and confidentiality of non-public personal information relating to those accounts. Please note that this policy applies to former customers in addition to current customers.

Personal Information Collected

In order to service your account as clearing broker, Penson is provided with information by your introducing broker, which is collected from you in order to provide the financial services that you have requested.

The information collected by your introducing broker and provided to Penson may come from the following sources:

1. Information received from you, such as your name, address, telephone number, social security number, occupation and income;
2. Information relating to your transactions, including account balances, positions and activity;
3. Information which may be received from consumer reporting agencies, such as credit bureau reports and other information relating to your creditworthiness;
4. Information which may be received from other sources with your consent or with the consent of your introducing broker.



Sharing of Nonpublic Personal Information

Penson does not disclose nonpublic personal information relating to current or former customers of introducing brokers to any third parties, except as required or permitted by law, including but not limited to any obligations of Penson under the USA PATRIOT Act, and in order to facilitate the clearing of customer transactions in the ordinary course of business.

Penson has multiple affiliates, including Penson Financial Services Ltd., Penson Financial Services Canada, Inc., Nexa Technologies, Inc and Penson GHCO. These companies, along with Penson Financial Services, Inc., are wholly owned subsidiaries of Penson Worldwide, Inc. We may share information among our affiliates, as permitted by law, in order to better serve your financial needs.

Security

Penson strives to ensure that our systems are secure and that they meet industry standards. We protect personal information that is provided to Penson by your introducing broker by maintaining physical, electronic and procedural safeguards that either meet or exceed applicable law. Where appropriate, we employ firewalls, encryption technology, user authentication systems (i.e. passwords and personal identification numbers) and access control mechanisms to control access to systems and data. Third parties who may have access to such personal information must also agree to follow appropriate standards of security and confidentiality.

We instruct our employees to use strict standards of care in handling the personal financial information of customers. As a general policy our staff will not discuss or disclose information regarding an account except with authorized personnel of your introducing broker or as required by law or pursuant to regulatory request and/or authority.

Access to Your Information

You may access your account information through a variety of media offered by your introducing broker and Penson (i.e. statements or online services). Please contact your introducing broker if you require any additional information.

Changes to Penson's Privacy Policy

Penson reserves the right to make changes to this policy.

How to Get in Touch with Penson about this Privacy Policy

For your reference, this policy has been posted to our website at www.penson.com. For more information relating to Penson's privacy policy, please contact:

Penson Financial Services, Inc.
ATTN: Compliance Department
1700 Pacific Avenue, Suite 1400
Dallas, TX 75201
1-800-696-3585

Penson Financial Services, Inc. Margin Disclosure Statement NASD Rule 2341 and NYSE Rule 436

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

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



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

- *You can lose more funds than you deposit in the margin account.* A decline in the value of securities that are purchased on margin may require you to provide additional funds to the firm that has made the loan to avoid the forced sale of those securities or other securities in your account.
- *The firm can force the sale of securities in your account.* If the equity in your account falls below the maintenance margin requirements under the law, or the firm's higher "house" requirements, the firm can sell the securities in your account to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.
- *The firm can sell your securities without contacting you.* Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the firm cannot liquidate securities in their accounts to meet the call unless the firm has contacted them first. This is not the case. Most firms will attempt to notify their customers of margin calls, but they are not required to do so. However, even if a firm has contacted a customer and provided a specific date by which the customer can meet a margin call, the firm can still take necessary steps to protect its financial interest, including immediately selling the securities without notice to the customer.
- *You are not entitled to choose which security in your margin account is liquidated or sold to meet a margin call.* Because the securities are collateral for the margin loan, the firm has the right to decide which security to sell in order to protect its interests.
- *The firm can increase its "house" maintenance margin requirement at any time and is not required to provide you advance written notice.* These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause the member to liquidate or sell securities in your account.
- *You are not entitled to an extension of time on a margin call.* While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.
- *The IRS requires Broker Dealers to treat dividend payments on loaned securities positions as a "substitute payment" in lieu of a dividend.* A substitute payment is not a "qualified dividend" and is not taxed as ordinary income.
- *Industry regulations may limit, in whole or in part, your ability to exercise voting rights of securities that have been lent or pledged to others.* You may receive proxy materials indicating voting rights for a fewer number of shares than are in your account, or you may not receive any proxy materials.

Day-Trading Risk Disclosure Statement

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

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



- *Be cautious of claims of large profits from day trading.* You should be wary of advertisements or other statements that emphasize the potential for large profits as a result of day trading. Day trading can lead to large and immediate financial losses.
- *Day trading requires knowledge of securities markets.* Day trading requires in-depth knowledge of the securities markets and trading techniques and strategies. In attempting to profit through day trading, you must compete with professional, licensed traders employed by securities firms. You should have appropriate experience before engaging in day trading.
- *Day trading requires knowledge of a firm's operations.* You should be familiar with a securities firm's business practices, including the operation of the firm's order execution systems and procedures. Under certain market conditions, you may find it difficult or impossible to liquidate a position quickly at a reasonable price. This can occur, for example, when the market for a stock suddenly drops, or if trading is halted due to recent news events or unusual trading activity. The more volatile a stock is, the greater the likelihood that problems may be encountered in executing a transaction. In addition to normal market risks, you may experience losses due to system failures.
- *Day trading will generate substantial commissions, even if the per trade cost is low.* Day trading involves aggressive trading, and generally you will pay commissions on each trade. The total daily commissions that you pay on your trades will add to your losses or significantly reduce your earnings. For instance, assuming that a trade costs \$16 and an average of 29 transactions are conducted per day, an investor would need to generate an annual profit of \$111,360 just to cover commission expenses.
- *Day trading on margin or short selling may result in losses beyond your initial investment.* When you day trade with funds borrowed from a firm or someone else, you can lose more than the funds you originally placed at risk. A decline in the value of the securities that are purchased may require you to provide additional funds to the firm to avoid the forced sale of those securities or other securities in your account. Short selling as part of your day-trading strategy also may lead to extraordinary losses, because you may have to purchase a stock at a very high price in order to cover a short position.

Business Continuity Plan: FINRA Rule 3510 and NYSE Rule 446(d)

As a fully disclosed and omnibus clearing firm, we have developed a Disaster Recovery (“D/R”) Plan to ensure business continuity. In our capacity as clearing firm, we provide a variety of services that require the provision of continual technological and operational support to your broker. In connection with accomplishing business continuity, we have established a remote independent D/R Site as a major component of our D/R Plan. This Site has resources in place to operate and maintain business critical processes in the event that our headquarters in Dallas, Texas cannot be occupied due to anything from a natural disaster to a terrorist attack, whether or not such an event affects only our firm or is more regional in scope. The D/R Plan contemplates restoration of critical processes within a twenty-four hour time span. Please note that the specifics of our D/R Plan are subject to modification. You may obtain a copy of our most current D/R Plan by written request. Inquiries should be directed to: Penson Financial Services, Inc. Attn: Compliance Department, 1700 Pacific Avenue, Suite 1400, Dallas, Texas 75201.

Futures Accounts

The National Futures Association (NFA) requires that we notify you in writing regarding NFA's Background Affiliation Status Information Center (BASIC). BASIC contains Commodity Futures Trading Commission (CFTC) registration and NFA membership information and futures-related regulatory and non-regulatory actions contributed by NFA, the CFTC and the U.S. futures exchanges. BASIC can be accessed at the NFA website www.nfa.futures.org or you can contact the NFA at (800) 621-3570 for additional information.

SIPC does not cover commodity contracts and options on futures.



SEC Rule 606 and 607 (Disclosure of Payment for Order flow and Order Routing Information)

Pursuant to SEC Rule 606, Penson Financial Services, Inc. is required to make publicly available a quarterly report with regard to its routing of non-directed orders. For the purpose of this Rule, we have entered into an agreement with Quantum5 Market Surveillance (a Division of S3 Matching Technologies) to disclose all required information pertaining to this rule. This information can be accessed on the internet at: <ftp://public.s3.com/11ac1-6/pfsi> , or a written copy will be furnished at no cost upon request via telephone to 214-765-1009 or email to cs@penson.com.

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

Pursuant to SEC Rule 607, Penson Financial Services, Inc. is required to disclose its payment for Order Flow practices. Penson Financial Services, Inc., sends certain equity orders to exchanges, electronic communication networks, or broker-dealers during normal business hours and during extended trading sessions. Some of those market centers provide payments to Penson Financial Services, Inc., or charge access fees depending upon the characteristics of the order and any subsequent execution. In addition, Penson may execute certain equity orders as principal. The details of these payments and fees are available upon written request. Penson Financial Services, Inc., receives payments for directing listed options order flow to certain option exchanges. Compensation is generally in the form of a per-option contract cash payment. This disclosure only applies to orders directed to Penson Financial Services, Inc. by your firm.

SEC Rule 10b-10

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

SIPC NASD Rule 2342 and NYSE Rule 409A

As a member of the Securities Investor Protection Corporation (SIPC) funds are available to meet customer claims up to a maximum of \$500,000 in cash and securities with a \$100,000 cash maximum. Additionally, Penson holds Excess SIPC Insurance of \$200,000,000 in the aggregate, over all customer accounts, subject to a maximum limit of \$900,000 per customer in respect to cash. This “Excess SIPC” protection is in addition to the protection provided by the Securities and Investors Protection Act, which is administered by SIPC and is subject to certain conditions and limitations, details of which are available upon request. Note SIPC and Excess SIPC provide coverage against loss of securities and cash, not against market depreciation, fluctuation in market value of your securities or a trading loss. Information regarding SPIC, including a SIPC brochure, may be obtained by contacting SPIC via its web site at www.sipc.org or by telephone at (202) 371-8300.

NASD Rule 2280

NASD Rule 2280 requires Penson Financial Services, Inc., to provide information about FINRA’s BrokerCheck program. An investor brochure that includes information describing the BrokerCheck program may be obtained from FINRA. The FINRA BrokerCheck hotline number is (800) 289-9999. The FINRA web site address is www.Finra.org.

Joint NASD Industry Breakpoint Task Force

A July 2003 report based on the following findings of this task force recommends written disclosure regarding mutual fund breakpoints.

Charges, Breakpoints, Fees and Revenue Sharing Relating to Mutual Funds, Money Funds, FDIC-Insured Bank Products, and Annuities

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



additional information to obtain the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund.

Disclosure required by NASD Rule 3230 and NYSE Rule 382

The firm with which you have opened your securities account has retained Penson Financial Services, Inc., (Penson) to provide certain record keeping or operational services. These services such as the execution and settlement of securities transactions, custody of securities and cash balances, and extension of credit on margin transactions are provided under a written Clearing Agreement between Penson and your firm. As a member of FINRA, Penson is required (under NASD Rule 3230 and NYSE Rule 382) to disclose to you the details of our Clearing Agreement with your firm, which are summarized below.

Responsibilities of Your Firm

Your financial organization has the responsibility to:

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

Penson Financial Services, Inc., has no involvement and assumes no responsibility in all of the above matters relating to the servicing of your account.

Responsibilities of Penson Financial Services, Inc.

In general Penson is only responsible for the services within the scope of the Clearing Agreement that are provided at the request of your firm and contains specific direction regarding your account. As such, Penson may fulfill the following responsibilities on behalf of your account:

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



If your firm opened a Margin account for you, Penson may:

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

Penson Financial Services, Inc., maintains the books and records required by law and business practice.

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

Penson does not control, audit, or otherwise supervise the activities of your firm or its employees. Penson does not verify information provided by your firm regarding your account or transactions processed for your account. Penson does not undertake responsibilities for reviewing the appropriateness of transactions entered by your firm on your behalf.

EXTENDED HOURS TRADING RISK DISCLOSURE

- **Risk of Lower Liquidity.** Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower levels of liquidity in extended hours trading as compared to regular market hours. As a result, your order may only be partially executed, or not at all.
- **Risk of Higher Volatility.** Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater levels of volatility in extended hours trading than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in extended hours trading to what you might receive during regular market hours.
- **Risk of Changing Prices.** The prices of securities traded in extended hours trading may not reflect the prices either at the end of regular market hours, or upon the opening of the next morning. As a result, you may receive an inferior price in extended hours trading to what you might receive during regular market hours.
- **Risk of Unlinked Markets.** Depending on the extended hours trading system or the time of day, the prices displayed on a particular extended hours system may not reflect the prices on other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive an inferior price on one extended hours trading system than you might receive on another extended hours trading system.
- **Risk of News Announcements.** Normally, issuers release news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.
- **Risk of Wider Spreads.** The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.
- **Risk of Lack of Calculation or Dissemination of Underlying Index Value or Intraday Indicative Value (“IIV”).** For certain Derivative Securities Products, an updated underlying index value, or IIV, may not be calculated or publicly disseminated in extended trading hours. Since the underlying index value and IIV are not calculated or widely disseminated during the pre-market and post-market sessions an investor who is unable to calculate implied values for certain Derivative Securities Products in those sessions may be at a disadvantage to market professionals.