

# Sample

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# Sample Manual Language

## TRADING

An adviser's trading practices must be fair to clients and must include a fair and reasonable allocation system. As a fiduciary, *(Firm Name)* has a responsibility to make only suitable investment recommendations to its clients. *(Firm Name)* must obtain sufficient information from each client to determine the nature of the client's investment objectives and policies.

## TRADING ERRORS

*(Firm Name)* and its investment adviser representatives will take care when handling client orders in order to avoid errors. *(Firm Name)* makes all attempts to implement client trades correctly. If a trade error does occur where *(Firm Name)* or any of its supervised persons is responsible for the error and a trade correction is needed, *(Firm Name)* will not pass the costs (including any losses) on to the client; will not use soft dollars to pay for correcting the error; and will not use another client's account to correct the error. *(Firm Name)* will bear all costs of correcting trade errors for which it was responsible. If the investment adviser representative is responsible for the error, *(Firm Name)* will pass all costs on to the representative.

*(Firm Name)* will maintain a report/file of all trade errors. The following will be documented for each trade error:

1. The client that was affected
2. A description of the error
3. The broker/dealer that was involved (if applicable)
4. The name of the security
5. The transaction date
6. A description of how the error was resolved

*(Designated Party or Parties)* will be responsible for periodically reviewing the trade error report/file to determine that trade corrections are being appropriately handled and to determine if additional policies and procedures need to be implemented or changes need to be made to lessen the frequency or number of trades that are occurring.

***How does the firm handle trade errors?***

## TRADE ALLOCATION

*(Firm Name)* must allocate all investment opportunities among eligible clients promptly and on a documented, equitable basis. In some instances, *(Firm Name)* may encounter situations where it may be beneficial for one or more of its clients' accounts to purchase or sell a security where the investment opportunity is limited. In these instances, *(Firm Name)* will allocate the opportunity among its eligible client accounts. The SEC requires registered advisers to allocate securities transactions and make advisory recommendations in a fair and equitable manner or

provide a fair and clear disclosure that the adviser does not. Failure to meet these requirements may result in a violation of the anti-fraud provisions of the *Advisers Act*. Allocation decisions must be made in a timely manner. Generally, this means that decisions will be made prior to placing the order. *(Firm Name)* or its supervised persons' proprietary accounts cannot be traded in a favorable manner over client accounts.

***Does the firm have any policies or procedures in place to ensure fair and equitable allocation of trades? The following can be used if the firm will use the "average price allocation" method.***

*(Firm Name)* allocates aggregated or block transactions on an average price basis. When transactions are aggregated, the actual prices applicable to the aggregated transactions will be averaged, and the Account will be deemed to have purchased or sold its proportionate share of the securities or instruments involved at the average price so obtained.

## AGGREGATION OF CLIENT ORDERS

In some instances, an adviser may be able to obtain better prices and lower execution costs for its clients if it aggregates (also known as bunching or block trading) multiple smaller orders into one large order. When determining whether or not to aggregate a transaction, *(Firm Name)* still remains subject to its duty of best execution.

***Insert the following if (Firm Name) does not aggregate client orders:***

*(Firm Name)* does not aggregate client orders.

***Or, the following if (Firm Name) aggregates client orders:***

Including proprietary accounts in an aggregated order creates a conflict of interest due to the fact that *(Firm Name)* would have an incentive to favor proprietary accounts. If *(Firm Name)* will include proprietary accounts in aggregated client orders, it will:

1. Disclose its trade aggregation policy to all clients in its Form ADV Part 2;
2. Aggregate transactions only if it believes that aggregation is consistent with its duty of best execution;
3. Allocate orders on a pro rata basis for partially filled orders;
4. Not favor any client over any other client, and each client participating in the order will participate at an average share price of all *(Firm Name)*'s transactions in that security on the day of execution and transaction costs will be shared on a pro rata basis for each client's participation in the transaction;
5. Prepare a written statement prior to entering into an aggregated order that will specify the participating clients and how *(Firm Name)* intends to allocate the order among clients;
6. Deviate from the written allocation statement only on a fair basis with written documentation approved by *(Designated Party or Parties)* no later than one hour after the opening of the markets on the trading day following the day the order executed;

7. Maintain accurate records relating to the aggregated trades, including, each client account that is included in an aggregated order, the securities held by and bought and sold for that client account;
  8. Not hold client assets collectively any longer than necessary to settle the purchase or sale transaction;
  9. Not receive any additional compensation or remuneration as a result of any aggregated order; and
  10. Render individual advice and treatment to each advisory client.
- (Designated Party or Parties)* will perform periodic spot checks of all aggregated orders to ensure that *(Firm Name)*' policies and procedures are adhered to and that trades are being allocated in a fair and equitable manner.

***(While the SEC has not given any set procedures to be followed when aggregating client orders, the above list contains procedures under which the SEC has generally indicated that including proprietary accounts would be accepted.)***

***Does the firm aggregate client transactions?***

***What policies and procedures are in place to ensure that trades are being properly aggregated?***