

Reg BI - Regulation Best Interest

The Securities and Exchange Commission has adopted Regulation Best Interest which establishes a new standard of conduct under its act of 1934 for brokerdealers and their associated persons when making recommendations of any securities transactions or investment strategy involving securities, including account recommendations to retail clients.

When acting on your behalf, we are required/must act in your best interest at all times.

When making a recommendation, we must place your financial interests ahead of our own.

There are four general obligations/review steps that our firm must perform before making any recommendation:

Care, Conflict of Interest, Disclosure and Compliance Obligations to Our Clients

1. **Care Obligation:** Stratosphere exercises reasonable diligence, care, and skill in making our recommendations to individual clients.
2. **Conflict of Interest Obligation:** Stratosphere establishes, maintains, and enforces our written policies and procedures which are designed to address all conflicts of interest. All Stratosphere brokers are registered as stockbrokers and not as Registered Investment Advisors (RIAs).
3. **Disclosure Obligation:** We will provide you with all available material facts about our company's products and your investments. We must disclose any conflicts of interest as a firm or by any of our company's registered representatives. Disclosures would be given to clients before or at the time of our 3 recommendation(s).
4. **Compliance Obligation:** Stratosphere has established, maintains, and enforces our firm's written supervisory procedures, designed to achieve compliance with Regulation Best Interest.

1. Care:

- Care is the new current FINRA suitability standard.
- We must discuss all potential risks, rewards, and costs associated with any recommendation.
- The reasonable basis of a recommendation must be in our client's best interest. The recommendation must not put the interests of our firm and/or our registered representative (broker) ahead of your own, the customer(s).
- Recommendations must be based on the individual customer's investment profile, risk reward, tolerance level, time constraints and all associated costs.

2. Conflict of Interest:

Stratosphere has established written policies and procedures that are reasonably designed to identify, disclose, mitigate and eliminate conflicts of interest associated with recommendations that create an incentive for the firm or its registered persons to place their interest ahead of the customer's.

Our firm must:

- Identify/disclose or eliminate all conflicts of interest whether material or not.
- Identify & eliminate all sales contests, quotas, bonuses & non-cash compensation, based on sales of specific securities or other products.
- Identify and mitigate any conflicts of interest that give RR/broker's incentive to put the interest of the BD and or themselves ahead of the client(s).
- Identify and disclose all material limitation(s) of a particular investment strategy.

Incentives can include:

- Compensation from broker-dealer or 3rd party.
- Extra price fees for services provided.
- Products sold. (Proprietary products, etc).
- Commissions, sales charges, fees, financial incentives, differential or variable compensation, whether paid by the retail customer, broker-dealer or 3rd party (example 3rd party; Issuer of SPAC/IPO).
- Firms are permitted to reward employees for performance as long as they do not create a conflict of interest. Incentives are prohibited if in addition to the above, being tied to asset accumulation, special awards, contests, appraisals, and performance reviews.

3. Disclosure Obligation:

CRS (client relationship summary) forms are sent out to all our clients when you open your account and again when you receive your account statement. You may also request a copy from your registered representative (broker).

We must disclose to all clients:

- The scope and terms of services being offered and provided.
- All fees and costs associated with client accounts, trades/money movements/maintenance fees, account(s).
- All client conflicts of interest must be disclosed before any recommendation.

Material Limitations for Recommended Securities/Strategies:

You should be aware that there are material limitations to the recommendations your financial professional provides. The firm approves/offers only certain account types, products and securities. There may be additional account types, products and securities that are not offered by the firm which may benefit you and your financial portfolio.

- Firms that have one or two products must disclose that they do not offer additional services or do but through a third party.
- Stratosphere may offer other products from which to choose from. For a complete listing, please ask your broker for further assistance.
- Registered representatives and our firm must relate to you at all times, all material facts relating to conflicts of interest associated with any recommendation(s).
- If a reasonable shareholder/investor considers it to be important then it probably is and needs to be disclosed.
- Material facts can also include investment approach, philosophy, strategy and risks associated with any investment strategy.

Monitoring Client Accounts

- Stratosphere does not offer account monitoring services. If we did, we would be required to show the scope and frequency of such monitoring.
- Stratosphere and its registered representatives cannot call themselves advisers. Clients could/might believe or assume that they are acting under the fiduciary obligations of an RIA, (registered investment advisor). Stratosphere is a broker-dealer with registered representatives (RR= registered representative or stockbroker). Stratosphere is not an investment advisory service with registered Investment advisors (RIAs).

Disclosure Form and Timing

- The timing and frequency of any account review by a broker before any financial recommendation/commitment can be left up to the broker as long as it is agreed upon before or at the time of the recommendation.
- Trade confirmations are considered a form of monitoring but not until after the recommendation and trade have been executed. These types of confirmations are considered to be for after-the-fact monitoring.
- Any investment recommendation, having material change(s) must be disclosed to all investors no later than 30 days after the material change has occurred. Disclosures can be verbal, emailed, or sent via U.S. mail. When a registered representative conveys this orally, they must log and provide evidence of such conversation to our firm's compliance department for its continued review.

4. Compliance Commitment/Obligation:

- Enforce all FINRA, SEC Rules and guidelines
- Enforce the firm's written supervisory procedures and policies
- Conflict Obligation: review all compliance under Reg BI
- Conflicts of Interest: Review all potential conflicts of interest between Stratosphere, its registered persons and clients
- Care Obligation: Present all material facts, risks rewards and a reasonable basis for a recommendation

Recommendations: What is a Recommendation?

There are factors to consider when determining whether a recommendation has taken place. Has the communication been received as a call to action or has it reasonably influenced you the investor to trade in a particular security or group of securities? A recommendation is also when the communication is specific to one individual or a group of customers about a stock or group (basket) of securities.

- Regulation Best Interest applies to recommendations across all types of accounts we offer
- General recommendations most typically are when a client is advised by their stockbroker to purchase/sell or to hold a current position.
- Account type recommendations are when your broker recommends you to initially open an account, IRA, or another type of brokerage account or by recommending that you rollover or transfer assets from one type of account to another. An example would be a workplace retirement plan, moved to an IRA or for a regular IRA account to be rolled into an IRA Roth account.

Firm-Client Commitment

Stratosphere uses its experience and industry knowledge to provide brokerage services to retail and institutional clients. Our firm seeks to understand our client's financial goals, needs, risk tolerances and strategies consistent with their unique financial needs. The information discussed must be sufficiently informative and specific so that our client (s) can assimilate all the information about the company or product to make an informed decision regarding their investments.

All material facts about a product being recommended must be discussed and mitigated before clients' involvement.

- The client's interests must come first and foremost.

Clients should review all offering documents and have a good understanding of the risk associated with all trades before making any financial commitment/decision.

Account Types: Each of the account definitions listed below are for your reference. If you desire to open any of the listed accounts below and you are not sure of its workings and fees then please reach out and contact your broker.

- Individual Account: A single person who is responsible for debits and credits to an account.
- Joint Tenant Account: An arrangement in which two people own property together each with equal rights and obligations. Should one of the two owners pass away, the assets are passed to the survivor without going through the probate/courts.
- Community Property (Spousal): Client's account assets acquired by either spouse during a marriage are considered community property belonging to both partners.
- Community Property with Rights of Survivorship: A jointly owned account of both spouses, when one of them passes away their ½ share would pass directly to the other spouse without going through probate.
- Tenants in Common: An arrangement when two or more people have an ownership interest in a property (account). Either tenant can own different percentages. Example three people 60/30/10 or any combination equaling 100.
- Joint Tenants with Rights of Survivorship: In this arrangement, all tenants have an equal right to the account's assets. Each of them having survivorship rights. Should one of the parties pass away, the remaining survivor(s) split all the remaining assets by the number of tenants, if only two people originally shared in the account then the remaining one person is given the entire account.
- Custodial Accounts: Held in the name of a minor, usually by a parent, legal guardian, or another relative. They have no income or contribution limits or withdrawal penalties. Gifts to this type of account are irrevocable.
- UGMA-Uniform Gift to Minors Act: allows individuals to give or transfer assets to under-age beneficiaries (parents and their children). This eliminates the fees required to pay attorneys to establish trust accounts in addition to it having special tax treatments while being taxed at the minors (kiddie tax) rate.
- UTMA-Under Transfers to Minors Act: allows minors to receive gifts of money, patents, royalties, real estate, and fine art without the aid of a guardian or trustee. This allows the gift giver or appointed guardian the ability to manage the minor's account until the minor is of age.

Trusts: Vehicles that pass assets to a trustee who in turn holds those assets in a trust fund for a third party, usually a beneficiary.

- Revocable Grantor of trust can alter the trust provisions.
- Income earned during the life of the trust goes to the Grantor.
- Irrevocable trust involves three or more persons. The grantor of the trust creates and places assets/gifts into the trust.
- The trustee is there to hold and distribute assets held in the trust according to the grantor's wishes for all of the beneficiaries.
- Testamentary: A trust contained in the last will & testament of an individual that provides for the distribution of all or part of an estate and possibly proceeds from a life insurance policy held by the individual establishing the trust.
- Family Trust: A popular vehicle in estate planning. A legal device used to avoid probate, avoid or delay taxes, and protect family assets. Who better than family to know what's best for your family?
- Charitable Trust: An irrevocable trust, for charity purposes. A way to set up assets that have tax-benefits, for you and your heirs. This would not be suitable for small contributions. Please speak with a representative for all its pros and cons.

Living Trust: A grantor transfers ownership of all assets, real estate, investments life insurance, etc. to the trust. The grantor then names trustee(s) to manage the trust. Living trusts can be both revocable and irrevocable.

- **Sole Proprietor:** Not a legal entity, it simply refers to a person who owns the business, and who is personally responsible for its debts. It can operate under the name of the owner or of the business.
- **A Corporation:** A legal entity that is separate and distinct from its owners. Corporations can make a profit, be taxed and be held legally liable. Corporations protect owners from being personally liable. The cost to start a corporation can be high.
- **C-Corp.:** A corporation where the owners or shareholders are taxed separately from the corporation. The profits from the company are taxed both at the corporate and individual levels, Double taxation.
- **S-Corp.:** A corporation where company income, losses deductions, and credits are passed through to its owners and shareholders. This offers limited personal liability protection whereby the owner's personal assets are protected by the corporation.
- **LLC:** A limited liability company whereby the owners are not personally liable for the company's debts or liabilities while having tax advantages and gives the owners more flexibility in its management.
- **A Non-Profit Organization (NPO):** Also known as a non-business entity or not forprofit organization or institution. It is a legal entity organized and operated for the public or social benefit. Any profits must be rolled back into the business for organizational purposes. A few basic examples are political organizations, schools, business associations, churches and social clubs. All seek to have tax-exempt status, by the IRS as it furthers a social cause and provides a public benefit, all the while receiving tax-deductible contributions.
- **Partnership:** A formal arrangement between two or more parties (people) to manage and operate a business and to share in its profits or losses. Types of partnerships include General, Limited and Limited Liability.

An Estate: Everything comprising of an individual's net worth, including all land, real estate, possessions, financial securities, cash, and other assets that the individual owns or has a controlling interest in.

- **An Administrator:** A person legally appointed to manage a deceased person's estate, one who is responsible for running a business, organization, etc.
- **An Executor:** An individual appointed by the courts to administer a trust or the estate of a deceased person. Like an administrator above, manages assets until distributed to all inheritors.
- **Personal Representative:** A person who has the authority to make decisions. An example would be a person authorized to make healthcare-related decisions for another person because the latter is very sickly or unable to handle their personal affairs.

Retirement Accounts

- **IRA (Traditional):** An account for retirement savings. Retirement accounts allow investors to direct pre-tax income towards investments that grow taxdeferred. They are subject to income tax at the time of withdrawal. An IRA account holder must start to take withdrawals at age 72.if you did not attain age 70 ½ by December 31, 2019.
- **An Inherited IRA:** A beneficiary IRA inherited after the original owner passes away. You cannot make additional contributions, but the funds remain taxdeferred. There are different nuances regarding your relationship with the deceased. Please call our offices for details on all IRA type accounts
- **IRA Rollover:** Allows you to move your IRA from your workplace retirement account to another company without penalties. Please call our offices to get more information regarding the types of accounts you can roll over to.

Roth IRA: Is an IRA account that you pay taxes on when making deposits into the account. All future withdrawals become tax-free. Especially good when you believe you will be paying higher taxes in retirement.

- Sep IRA Employer or self-employed: Individually established. Employers are entitled to tax deductions for contributions made to a SEP plan.
- Profit-Sharing Plan: gives employees a share in the profits of a company. • Money Purchase Plan: similar to profit-sharing plan except contribution amounts are fixed instead of being variable.
- 403 (b): a tax shelter annuity plan for employees of public schools and other organizations.
- 401 (k): allows employees to divert a portion of their salaries to long-term investments. Employers may match their contribution up to pre-set limits.
- Individual (k): a self-employed no-employee (SOLO) individual retirement plan designed for a business owner. Can use the plan to cover both you and your spouse.

Should you have any questions, issues, or concerns, or maybe you just want to speak to one of our professional representatives, we accept all calls. Please feel free to contact us during business hours.