Penson Financial Services, Inc.
Member FINRA, NYSE and SIPC
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Important Notice – New Low Price Security Policy

Trading in micro-cap or otherwise illiquid securities is subject to significant market risk, becoming increasingly expensive, and under more and more regulatory oversight. The cost burden micro-cap trades impose on PFSI is significant, including the impact of industry central counterparty policies regarding low priced securities. Several weeks ago, PFSI took action to eliminate physical deposits of securities priced under ten cents ($0.10) in order to reduce these costs. This change has been only partially successful in reducing the costs of trading in low priced securities, making further restrictions necessary.

The two NSCC policies which are especially costly for activity in low priced securities are as follows:

- The NSCC Illiquid Charge is applied when a customer sells more than 25% of the average daily trading volume of a security during any three day settlement cycle. The amount of this charge depends on the percentage of the ADV represented by the open sales. The charge has very little relation to the value of the trade, and is generally at least ten times the trade value and may be as high as one hundred times the trade value, or even more. This charge is incurred even if the customer owns the shares and even when PFSI has these shares long in its DTC account. The charge is imposed during for the time period between trade and settlement date.
- On a daily basis, NSCC marks all unsettled trades to the market, and charges PFSI a MTM risk deposit. For sales of securities which trade under one cent ($0.01), the MTM price is set at one cent ($0.01). This means that PFSI must post a MTM risk deposit with NSCC which often is a large multiple of the trade value.

PFSI is therefore changing its policies and charges regarding the trading activity of securities priced under $1.00 ("low priced security").

- If a customer creates a NSCC Illiquid Charge greater than $50,000, the offending trade or trades will be bought in on T+1, with notice through our customary channels.
- If a customer creates a second NSCC Illiquid Charge greater than $50,000 in a ninety day period, in addition to the buy-in, the customer account may be subject to closure for ninety days.
- PFSI will begin passing cost of the MTM risk deposit resulting from trades in securities priced under one cent ($.01) through to the customer on the trade confirmation. The charge will be assessed as follows:

  ((Quantity x .01) – Trade Value) x (number of days until settlement/365) x 10%

  This charge will approximate the cost of capital to fund the mark to market for the number of days the transaction is open at NSCC.

The changes regarding the Illiquid Charge will be effective on Tuesday August 16th. PFSI data shows that NSCC Illiquid Charges in excess of $50,000 are created by approximately <u>ten</u> transactions per day across the entire PFSI customer base. This change will therefore be minimally impactful to customers but will have a measurable impact on PFSI costs. **Please note that compliance with this policy is your**

responsibility and the responsibility of your customers. Please communicate these changes to your customers immediately.

The changes regarding the MTM charges will require programming and will be effective shortly after this work is completed. PFSI will provide notice prior to the implementation of this charge.
Please direct any questions regarding these policy changes to your relationship manager.

Thank you,
Penson Financial Services, Inc.