

What Every Investor Should Know About What Securities Brokerage Firms Are Prohibited From Doing

Securities brokerage firms and their representatives, by virtue of the nature of their relationship with their customers, are prohibited from various forms of misconduct.

Prohibited acts include:

- Securities brokerage firms and their representatives are prohibited from violating applicable laws and professional standards of conduct.
- Securities brokerage firms and their representatives are prohibited from misleading customers [e.g. misrepresenting or failing to disclose facts concerning an investment and failing to provide a balanced disclosure (both the good and the bad) about an investment that is recommended to a customer].
- Securities brokerage firms and their representatives are prohibited from making unsuitable recommendations to customers [e.g. recommending the purchase, sale or exchange of any investment without reasonable grounds to believe that it is suitable in light of the customer's investment experience, investment objectives, time horizon, risk tolerance, and other factors pertaining to the customer's age, employment, and financial situation and needs].
- Securities brokerage firms and their representatives are prohibited from churning [e.g. trading that is excessive in size or frequency and generates excessive commissions].
- Securities brokerage firms and their representatives are prohibited from switching [e.g. a form of churning involving exchanging one mutual fund or annuity to another when there is no legitimate investment purpose underlying the switch].
- Securities brokerage firms and their representatives are prohibited from making unauthorized trades [e.g. executing a transaction on behalf of a customer without prior specific authorization to do so].
- Securities brokerage firms and their representatives are prohibited from making unauthorized transfers [e.g. transferring funds or securities from a customer's account without authorization to do so].
- Securities brokerage firms and their representatives are prohibited from guaranteeing customers against losses [e.g. promising customers that they will not lose money on a particular investment, making specific price predictions, or agreeing to share in any losses in the customer's account].
- Securities brokerage firms and their representatives are prohibited from selling away [e.g. sales of investments by a broker as an outside business away from (i.e., unsupervised by) the brokerage firm such as transactions between a broker and a customer, or selling the customer an ownership interest in a car dealership].
- Securities brokerage firms and their representatives are prohibited from selling unreasonably priced investments [e.g. entering into a transaction with or for a customer at a price not reasonably related to the current market price of the security or receiving an unreasonable commission or profit].
- Securities brokerage firms and their representatives are prohibited from failing to disclose their affiliation with the issuer of securities [e.g. failing to disclose that the brokerage firm controls, is controlled by, is under common control with, or is affiliated with the issuer of any security sold to the customer].
- Securities brokerage firms and their representatives are prohibited from refusing to respond to a complaint or document request [e.g. failure or refusal to furnish a customer, upon reasonable request, information to which he is entitled, or to respond to a formal written request or complaint].



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