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## **AlterNet Securities, Inc. (“AlterNet” or the “Firm”) Annual Regulatory Disclosure**

### **COMPLIANCE WITH APPLICABLE LAWS**

As a condition of AlterNet’s acceptance of your instructions, you represent that you will, and undertake to, comply with and fulfill all of your obligations under applicable laws and regulations and will not breach such applicable laws or regulations.

You also agree to provide us promptly with all information necessary for us to perform our obligations under applicable laws and regulations.

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### **ANTI-MONEY LAUNDERING**

The USA PATRIOT Act (the “Act”) imposes anti-money laundering requirements on brokerage firms and financial institutions. Under the Act’s provisions, all brokerage firms are required to have comprehensive anti-money laundering programs. As part of AlterNet’s required program, the Firm may request that you provide various identification documents or other information. AlterNet will not be able to open an account or effect any transactions on your behalf until all required information and/or documentation has been provided. More information on AlterNet’s “Client Identification Program” is available on the Firm’s website under <https://www.itg.com/about/compliance>

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### **FINRA RULE 2266 SIPC INFORMATION**

AlterNet is a member of Securities Investor Protection Corporation (“SIPC”). You may obtain information about SIPC including the SIPC brochure by contacting SIPC at (202) 371-8300 or [www.SIPC.org](http://www.SIPC.org) .

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### **PAYMENT FOR ORDER FLOW**

AlterNet may receive remuneration from market centers and market makers in connection with the routing of certain client orders in the form of discounts, rebates, reductions of fees or credits. This does not alter the Firm’s policy to route client orders to the trading center where it believes clients will receive the best execution, taking into account, among other factors, price, transaction cost, including net trading arrangements, volatility, market depth, quality of service, speed and efficiency

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## **EXTENDED TRADING HOURS**

Under CBOE Rule 6.1A(j), Nasdaq Rule 4631 and FINRA Rule 2265, AlterNet may not accept an order from a client during extended trading hours without disclosing the potential risks involved in such extended-hours trading. Accordingly,

AlterNet hereby advises you that the potential risks include the following:

- **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 liquidity during 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 volatility during extended hours trading than regular market hours. As a result, your order may only be partially executed or not at all.
- **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 at the opening the next morning. As a result, you may receive a price during extended hours trading which is inferior to the price that would be obtainable 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 trading system may not reflect the prices in other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive a price in one extended hours trading system that is inferior to the price that would be obtainable in another extended hours trading system.
- **Risk of News Announcements.** Issuers frequently make news announcements after regular market hours that may affect the price of their securities. 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 security.

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## **ELECTRONIC TRADING**

AlterNet may provide you with access to national securities exchanges, alternative trading systems and/or other market centers for the purpose of executing your equity orders. These market access services are provided through the FIX connectivity supported by AlterNet's affiliate broker dealer ITG Inc. ("ITG").

When one of the services is utilized in the handling of your order, the relevant algorithmic trading or smart order router technology, depending on your particular trading execution objective may break down your order into smaller orders over the specified time period and route these smaller orders to one or more national securities exchanges, alternative trading systems and other market centers, each according to the embedded routing logic. For certain types of order flow and/or instructions, client orders will be routed to POSIT, ITG's alternative trading system, for matching opportunities before being routed to outside market centers for execution.

**You may opt out of executing in POSIT altogether.**



In addition, ITG's trading services may send orders to POSIT for execution. Orders routed to POSIT are subject to ITG's policies and procedures regarding best execution, including price and compensation associated with the purchase or sale of such securities.

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## **POSIT**

POSIT is an equity alternative trading facility as described in more detail in ITG's Form ATS (<https://www.itg.com/solutions/liquidity/>)

POSIT will generally allocate trades for matching in equity securities on a size pro rata basis for price-eligible orders.

Any institutional or broker-dealer client of ITG is eligible to become a POSIT subscriber (a "Subscriber"). ITG employs controls that may prevent the interaction between certain types of Subscriber orders. The motivations for these controls are to:

(1) protect customer orders from adverse selection, gaming, and/or potential market manipulation; (2) ensure the stability of POSIT's order handling and execution systems; and (3) maintain the quality and integrity of POSIT's liquidity pool. These measures are primarily employed to secure best execution for all Subscriber orders, which is a paramount consideration of ITG and POSIT.

ITG and POSIT employ several measures, controls, and reviews to protect Subscriber orders from gaming strategies. These tools include POSIT's pre- and post-trade controls. ITG uses these controls to monitor trading activity in POSIT for execution quality, potential regulatory violations, and inappropriate Subscriber trading behavior.

If you would like more detailed information concerning POSIT's matching operations and/or control measures please see the Form ATS or the ITG POSIT FAQ Document, both of which are posted on ITG's publicly-accessible website: <https://www.itg.com/about/transparency/>

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## **AFFILIATES**

AlterNet has a Canadian broker-dealer affiliate, ITG Canada Corp. ("ITGC"). ITGC may submit orders to AlterNet for execution.

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## **MARKET ACCESS AND CLIENT RISK MANAGEMENT CONTROLS**

AlterNet relies on the market access controls employed by ITG as AlterNet's market access provider. Specifically, ITG employs policies, procedures, and controls to manage its regulatory, financial, and/or market risks effectively in accordance with SEC Rule 15c3-5. Accordingly, ITG's account representatives and trade support teams monitor a client's trading activity to detect potential systems issues, identify potential regulatory violations, provide product support, and/or oversee the application of the client's risk limits.

As a user of AlterNet's services, you are responsible for ensuring that you, your investors, customers, clients, employees, principals, officers, directors, and/or agents (the "Users") abide by applicable laws and rules when submitting orders to AlterNet. In addition, you are reminded to establish your own risk management policies, procedures, and/or controls and to monitor your investment positions and/or trading activities closely. Moreover, you should maintain these policies, procedures, and controls independently from any market access or risk management checks that are employed by AlterNet via ITG.



The risk management checks employed by AlterNet via ITG include but are not limited to a Single Order Value Check, Limit Price Check, and Daily Aggregated Value Check. Additionally, ITG employs controls on market orders and as such, market orders may be rejected at the Firm's discretion.

Clients may request information regarding the Daily Aggregated Value check to manage their order flow proactively.

In addition, ITG employs ITG Algorithm® Risk Checks which have embedded risk controls that operate independently from the above-mentioned checks. Additional details regarding the Firm's Market Access and Client Risk Management are available upon request.

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## Order Handling

### **"NOT HELD" ORDERS**

Orders transmitted to AlterNet may be handled on a "held" or "not held" basis. As a general matter, AlterNet handles orders from its broker-dealer clients on a "not held" basis unless specifically indicated otherwise. AlterNet believes that this order instruction provides for price and time discretion with the objective of achieving the best overall execution possible under prevailing market conditions. AlterNet will handle IOC orders on a held basis based on the fact that orders designated as IOC do not allow for the application of price and time discretion.

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### **FINRA RULE 5320**

Rule 5320 generally prohibits a member firm that accepts and holds a client order from trading for its own account at terms that would satisfy the client order, unless the member immediately thereafter executes the client order at the same or better price than it traded for its own account. Please note that consistent with regulatory guidance, "not held" orders are outside the scope of the rule. Additionally, AlterNet does not engage in any of the following activities: (1) at-risk proprietary trading; (2) market making; (3) capital commitment, and/or (4) establishing directional positions. All transactions effected for clients in a principal capacity are done so on a riskless or net trading basis. While AlterNet does not trade proprietary, in the normal course, AlterNet may require the ability to trade principally for error and accommodation purposes. As such, AlterNet may during the course of such transaction, trade principally at prices that may satisfy your order. This disclosure establishes your consent for AlterNet to engage in this type of activity while working your orders. Please reach out to your account representative should you wish to revoke this consent at any time.

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### **FINRA RULE 5270**

AlterNet does not engage in any of the following activities: (1) at-risk proprietary trading; (2) market making; (3) capital commitment, and/or (4) establishing directional positions. All transactions effected for clients in a principal capacity are done so on a riskless or net trading basis.

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### **RESTRICTED SECURITIES**

You acknowledge and agree that you will not place an order to sell any restricted securities subject to Rule 144 or 145(d) under the Securities Act of 1933, as amended, or any other securities transactions requiring a "Broker's Representation Letter," unless you first notify AlterNet regarding the status of such securities and furnish AlterNet with any and all necessary documentation (including opinions of legal counsel, if requested) to permit legal transfer of



such securities. You are responsible for any and all costs and expenses associated with compliance or failure to comply with the requirements of Rules 144 and 145(d). Furthermore, you recognize and acknowledge that even if all necessary documentation is provided to AlterNet in a timely manner, there may be delays in processing securities transactions subject to Rule 144 or 145(d) under the Securities Act of 1933, as amended. AlterNet, in its sole and absolute discretion, may require the retention of proceeds from any sale and/or that such securities not be delivered until the securities become legally transferable.

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### **ROUTING & EXECUTION INFORMATION**

As previously discussed, market center access is provided through the FIX connectivity supported by AlterNet's affiliate broker-dealer ITG. In accordance with SEC Rules 605 and 606 under Regulation NMS, ITG's order routing and execution statistics can be found on ITG's website at [www.itg.com](http://www.itg.com). AlterNet may also provide additional execution-related details based on written request. Please contact your AlterNet sales representative.

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### **LIMIT PRICES FOR NMS SECURITIES**

AlterNet will not accept limit orders, or indications of interest in any NMS stock priced in a sub-penny increment smaller than \$0.01 if the quotation, order, or indication of interest in the security is priced equal to or greater than \$1.00 per share. If the quotation, order, or indication of interest is priced less than \$1.00 per share, AlterNet will not accept limit orders in a sub-penny increment less than \$0.0001.

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### **INDICATIONS OF INTEREST**

AlterNet does not disseminate indications of interest ("IOI"). IOI's are expressions of trading interest that contain one or more of the following elements: security name, side of the market, size and/or price.

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### **CONDITIONAL ORDERS**

Conditional orders are not firm orders but an instruction to a venue that a participant wants to interact with the order book on a conditional basis. ITG's algorithmic trading strategies may generate conditional orders, when executing orders on behalf of AlterNet, in order to seek liquidity in various destinations. In addition, ITG operates POSIT Alert®, an indications matching system which allows participants to link their internal order management systems or trade blotters for conditional trading interests. A conditional order is not directly executable; instead, when a conditional order has an opportunity to match with a contra party, ITG will send an invitation to the client responsible for the conditional order, inviting them to send a Firm-Up Response Order. Firmed-up orders are sent to POSIT for crossing.

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### **PRINCIPAL TRADING**

AlterNet does not engage in any of the following activities: (1) at-risk proprietary trading; (2) market making; (3) capital commitment, and/or (4) establishing directional positions.



All transactions effected for clients in a principal capacity are done so on a riskless or net trading basis.

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### **INFORMATION**

AlterNet analyzes transaction data on an individual and aggregate basis for a variety of purposes, including counterparty risk management, sales coverage, and client relationship management. In addition, AlterNet may analyze, comment on and disseminate aggregated and anonymized information regarding executed transaction, as well as unexecuted orders or transaction instructions, together with other available information regarding various markets, internally and (with potential categorization as to product, geography, sector and/or industry) to its clients as part of its general market commentary. Further, ITG may advertise client flow originating from AlterNet in one or more market-wide dissemination systems. Clients may elect to not allow advertisements of their trading activity by contacting their coverage team. All information provided to a client by AlterNet (unless already in the public domain) should be treated as confidential and should not be disclosed by a client to any third party. Please note that AlterNet may provide information as necessary to fulfill legal or regulatory responsibilities and respond to requests with which it is required to comply.

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### **BUSINESS CONTINUITY PLAN**

AlterNet relies on ITG's Business Continuity Plan based on ITG providing market access for AlterNet and a shared Operational, Security and Compliance Structure. A copy of ITG's Business Continuity Plan can be found here: <http://www.itg.com/compliance/business-continuity-plan/>

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### **TELEPHONE RECORDING DISCLOSURE**

Certain telephone lines in our sales and trading departments may be recorded. Please note that these recordings may be made with or without the use of a spoken warning, tone, or similar notification.

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### **FINRA BROKERCHECK**

Pursuant to FINRA Rule 2267, AlterNet reminds you that you may access the firm's FINRA BrokerCheck information at [www.FINRA.org](http://www.FINRA.org) or by calling the FINRA BrokerCheck Hotline at (800) 289-9999. An investor brochure regarding the FINRA BrokerCheck Program is available through the FINRA web site. Upon written request, AlterNet can deliver an investor brochure that includes information describing FINRA's Public Disclosure Program.