



Affirmative Determination Requirements – Short Stock Locates for US Trades

VT Brokers, LLC (“VTB”) has obligations under SEC Regulation SHO and Rule 204 and under FINRA regulation and enforcement for the affirmative determination of the availability of stock to borrow to cover a short sale by its customers when their trades do not qualify for a locate exemption. All short sales, whether part of a day-trading strategy, a hedge strategy or a short strategy require a “locate” affirming the availability of stock to be borrowed prior to entering the trade.

VTB maintains fully disclosed clearing arrangements with Merrill Lynch Professional Clearing and Penson Financial Services. The short sale locate requirement must meet the availability standards particular to each clearing firm. This means establishing a locate (including a pre-borrow) with the clearing firm where your account is cleared. Third party locates are not acceptable.

Types of Locates

Locates, including pre-borrows, must always be obtained from the clearing firm where the trade will settle. There are several methods to obtain a locate:

- **Easy to Borrow List:** Each clearing firm generates a daily Easy to Borrow List that is an indication that they have pre-confirmed a limited availability of shares. The Easy to Borrow List is not for an unlimited number of shares but generally for 5,000 to 10,000 shares. For this reason it is sometimes referred to as a “day trading list.”

When using an Easy to Borrow List, each VTB customer must use only the List produced by the clearing firm where their trades settle. The Easy to Borrow List can only be used for the maximum share amount authorized by the clearing firm for that day.

The daily Easy to Borrow List usually is uploaded daily into the trading platform used by each VTB customer to automate the checking of stocks and quantities on the List before transmitting an order to sell short. However, this process only covers stocks on the List and does not include stocks that are not Easy to Borrow and therefore not on the List.

- **Specific Stock and Share Locates Including Pre-Borrows:** If a stock is not on the Easy to Borrow List provided by the clearing firm where your trades settle or the quantity of shares you are going to short is greater than the maximum quantity on the Easy to Borrow List, then you must get a specific locate. The specific locates must be with the Stock Loan Desk of the clearing firm where your trades settle. Call the clearing firm Stock Loan Desk and ask for an affirmative determination or locate as a VTB customer and confirm the following: **stock (symbol), number of shares, name of the clerk and whether a locate or pre-borrow.** Then, provide your email address and ask the clerk on the Stock Loan Desk to send you confirmation of the locate or pre-borrow. However, please note that the clerk is often too busy to send the requested email.

When the Stock Loan Desk provides email confirmations of your specific locates not on an Easy to Borrow List, forward these emails daily to: Locates@vtbclient.com. If the Stock Loan Desk does not provide an email confirmation, write down or otherwise retain the locate information as defined above and email this information daily to: Locates@vtbclient.com.

The Stock Loan Desk will determine if you will be provided a locate or pre-borrow depending on your request and the stock loan conditions at that time.

- **Pre-Opening Locates:** Each VTB customer should review the appropriate Easy to Borrow List before the market opening each trading day. If a customer does not see a security the trader knows he or she may go short during the course of the day, the customer must call the Stock Loan Desk of his or her clearing firm and request one or more pre-opening locates. For multiple locates, the clearing firm will often email a spreadsheet with the symbols and maximum shares indicating the approved locates. These emails and spreadsheets must be saved and forwarded daily to Locates@vtbclient.com.
- **Day-Trading Locates: VTB customers that essentially day trade and are flat at the end of each day still need to get a short stock locates for any shares that are short intraday. These locates should be for greater than or equal to the largest net open intraday short positions in the customer's account.**

VTB Central Locates File

All customers must send daily information for all their locates by email promptly to:
Locates@vtbclient.com.

Your emails can simply forward locate emails and spreadsheets received from the Stock Loan Desk of the clearing firm where your trades settle and/or your emails can forward specific locate information that you wrote down as obtained from your clearing firm.

At a minimum, your email should include the following details:

- 10-digit account number
- Trade date
- Customer name
- Clearing firm (Merrill Pro or Penson) desk person's name

If you have issues or problems in sending your daily locate information, please call VTB's Operations Desk at 415-293-3908 or 415-293-3901.

E-Locate from MLX

VTB's customers can also access the MLX stock loan Securities Lending Link from Merrill Lynch Professional Clearing at: <https://www-s.baml.ml.com/StockLoan/Net/StockLoanMain.aspx>.

Customers will need to request a MLX login and certificate to gain entry into the online Securities Lending link from VTB's Operations Desk through Andy Capote at 415-293-3901.

The Securities Lending link provided by MLX online can be used by VTB's customers clearing at Merrill Lynch Pro. Customers are able to e-locate symbols from the hard to borrow list and keep a record of what was located on the system. It enables traders to see the availability of the symbols and establish a recorded locate. VTB's traders can then send an email to Locates@vtbclient.com using the reference number and information provided to them by MLX online.

Clearing Firm Stock Loan Locate Desks

- Merrill: Call 212-449-1422
- Penson: Call 214-765-1100

VTB Documentation/Retention of Locates

VTB's clearing firms retain their daily Easy to Borrow Lists and VTB also maintains a copy of the Merrill and Penson Lists in its proprietary VT Data System. If a List for a prior day is needed for review, please check your clearing firm's web site or contact the Stock Loan Desk for access to a copy.

VTB's VT Data System produces a daily Customers Not Easy to Borrow Short Sale Report that is sent to the Locates Monitor on the Operations Desk for review. This Report is also archived and retrievable for prior days.

The results of the daily review by the Locates Monitor indicating 100% compliance or noting issues are then sent by email to the Chief Compliance Officer and others at the Firm and include the daily Report.

VTB Corrections of Missing Locates

In the event VTB's Operations Desk finds missing locates through its daily review and/or by clearing firm notice, the Operations Desk will attempt to contact the customer and will obtain locates from the applicable clearing firms. If a required locate is not immediately available, the Operations Desk may close out the trade and inform the customer by email of its corrective actions.

Trader Sanctions for Missing Locates or Locates Information

When a customer whose trades do not qualify for a locate exemption is found not obtaining required locates for short sales of stocks and/or not sending daily locate information to the Central Locates File, the Firm will consider and decide whether or not to impose the following sanctions for multiple and/or significant violations:

- First violation: Customer receives email warning notice.
- Second violation: Customer account is restricted to closing trades only for 10 trading days
- Third violation: Customer account is restricted to closing trades only for 30 trading days

Fourth violation: Customer account is closed. A record of any warnings and sanctions will be kept in the customer's file.

March 2011