



ARCH SPECIALTY INSURANCE COMPANY

A Nebraska Corporation

ADMINISTRATIVE OFFICE
 One Liberty Plaza
 53rd Floor
 New York, NY 10006
 Tel: 800-817-3252

**APPLICATION FOR SECURITIES BROKER/DEALER
 AND REGISTERED REPRESENTATIVE
 ERRORS AND OMISSIONS POLICY**

All Questions Must Be Answered Completely

- 1. Name of Applicant: _____
- 2. Telephone Number: (____) _____
- 3. a) Address: _____

- 4. Contact: _____
 Title: _____
- b) Website Address: _____
- 5. State of Incorporation: _____
- 6. Year Firm Established: _____
- 7. Does the Broker/Dealer request coverage for itself? Yes No
- 8. Please give details of current insurance carried. (If none, please indicate)

<u>Current Insurance Coverage</u>	<u>Insurer</u>	<u>Limits</u>	<u>Premium</u>	<u>Eff./Exp. Date</u>
Current Errors and Omissions Liability Policy	_____	_____	_____	_____ to _____
Current Fidelity Bond	_____	_____	_____	_____ to _____
Current Directors and Officers Liability Policy	_____	_____	_____	_____ to _____

- 9. a. Has the Applicant been the subject of any mergers, acquisitions, divestitures and/or tender offers during the past three (3) years? Yes No If "Yes", please attach full details
- b. Is the Applicant currently involved in or discussing any pending or possible mergers, acquisitions divestitures and/or tender offers? Yes No If "Yes", please attach full details to the extent permitted.
- 10. Is there an Affiliated/Subsidiary Company(ies) to be covered? Yes No
- 11. a. Current number of producing Registered Representatives. _____
- b. Of the current number, how many are licensed as: Series 6 _____ Series 7 _____
 Series 11 _____ Series 22 _____ Series 24 or 27 _____ Other _____

- c. Current number of non-licensed Employees: _____
- d. Is professional liability coverage mandatory? Yes No
- e. What is the expected level of participation in the program? _____
- f. How many Registered Representatives currently have professional liability coverage? _____

12. Please indicate the total number of Registered Representatives by state of domicile:

Alabama _____	Illinois _____	Montana _____	Rhode Island _____
Alaska _____	Indiana _____	Nebraska _____	South Carolina _____
Arizona _____	Iowa _____	Nevada _____	South Dakota _____
Arkansas _____	Kansas _____	New Hampshire _____	Tennessee _____
California _____	Kentucky _____	New Jersey _____	Texas _____
Colorado _____	Louisiana _____	New Mexico _____	Utah _____
Connecticut _____	Maine _____	New York _____	Vermont _____
Delaware _____	Maryland _____	North Carolina _____	Virginia _____
D.C. _____	Massachusetts _____	North Dakota _____	Washington _____
Florida _____	Michigan _____	Ohio _____	West Virginia _____
Georgia _____	Minnesota _____	Oklahoma _____	Wisconsin _____
Hawaii _____	Mississippi _____	Oregon _____	Wyoming _____
Idaho _____	Missouri _____	Pennsylvania _____	TOTAL: _____

- 13. a. Projected increase or decrease in the number of Registered Representatives this year:
 _____ Increase _____ Decrease
- b. Number of Registered Representative contracts at the end of the year for the past three (3) years:
 Prior Year _____ Second Prior Year _____ Third Prior Year _____
- c. Has the firm acquired the Registered Representatives and/or sales force of some other entity in the past three years? Yes No If "Yes," please provide details (including what procedures, if any, were taken to conduct "due diligence" on the Registered Representatives acquired.)
- d. Average length of service of Registered Representative with the applicant: _____
- e. Attrition rate of Registered Representatives in the first year of contract: _____%.
 In the first five years: _____%.
- f. Number of Registered Representatives terminated in the past three (3) years for other than lack of production: _____
- g. Number of Registered Representatives reinstated in the past three (3) years: _____
- h. What level of production is mandated for maintaining Registered Representative status with the applicant? _____
- 14. a. Name and address of clearing firm used: _____

b. How long has the applicant maintained its relationship with its current clearing firm? _____

15. Who has the authority to accept new accounts: _____

16. a. Total number of Customer Accounts: _____

(1) Of the total, what number are Margin Accounts? _____

(2) Of the total, what number are Discretionary Accounts? _____

(i) How many Registered Representatives and/or Officers, Partners or Directors have discretionary authority?

(Indicate Names and Titles) _____

(3) Of the total number of Accounts:

(i) What percent are: Individual? ____% Institutional? ____% Corporate? ____%

(ii) What percentage are: Other? ____% Please describe: _____

b. Total asset value of customer accounts: \$_____ As of: _____

17. Gross revenues for the past three (3) fiscal years?

Year Ended _____ Year Ended _____ Year Ended _____
 \$ _____ \$ _____ \$ _____

18. What is the average size investment portfolio for each client? \$_____

19. Please provide gross revenue and average size of investment for each category below for the most recent fiscal year.

	GROSS REVENUE	<u>AVERAGE SIZE OF TRANSACTION</u>
a. Mutual Funds	a. _____	a. _____
1. Equity-Growth	1. _____	1. _____
2. Small/Mid Cap	2. _____	2. _____
3. Global (Incl. U.S.)	3. _____	3. _____
4. International (Non U.S.)	4. _____	4. _____
5. Venture Capital	5. _____	5. _____
6. Stock/Bond Blend	6. _____	6. _____
7. Bond	7. _____	7. _____
8. Other	8. _____	8. _____
b. Variable Life	b. _____	b. _____
c. Variable Annuities	c. _____	c. _____
d. Listed and OTC Stocks	d. _____	d. _____
e. Penny Stocks	e. _____	e. _____
f. Unlisted Stocks	f. _____	f. _____
g. Options Contracts	g. _____	g. _____
h. Commodities and Currency Futures	h. _____	h. _____
i. Real Estate Investment Trusts		
Trusts ("REIT'S")	i. _____	i. _____
j. Unit Investment Trusts	j. _____	j. _____
k. Public Limited Partnerships		
1. Proprietary	1. _____	1. _____
2. Non-Proprietary	2. _____	2. _____
l. Private Placement Limited Partnerships		
1. Proprietary	1. _____	1. _____
2. Non-Proprietary	2. _____	2. _____

m.	Bonds		
	1. Corporate Bonds	1. _____	1. _____
	2. Junk Bonds	2. _____	2. _____
	3. Municipal Bonds	3. _____	3. _____
n.	Derivative Products (IOs, POs, ADRs, etc.)	n. _____	n. _____
o.	Hedge Funds	o. _____	o. _____
p.	Other Revenue (Describe)	p. _____	p. _____
	TOTAL	\$ _____	

20. a. Does the broker/dealer offer any proprietary products? Yes No
 If "Yes", describe these products, and state what percentage of the total annual gross revenue they comprise: _____

b. Are all proprietary products registered either with the SEC or an appropriate state regulatory agency? Yes No
 If No, please explain: _____

21. Do you offer Day Trading Services? Yes No
 If "Yes", please describe nature of services offered and percentage of Broker/Dealer revenue?

22. Does the broker/dealer have an approved products list? Yes No
 If "Yes", please describe the procedure for selecting investments to be included on the approved products list, the procedures for updating that list, and procedure for monitoring the performance of approved products: _____

23. Describe the procedures for recruiting and selecting and continuing training of Registered Representatives, including the supervisory oversight of attendance at and content of training programs:

24. Does the broker/dealer provide any training to newly hired Registered Representatives?
 Yes No If "Yes", please describe. _____

25. Describe the procedures for monitoring your Registered Representatives' compliance with state and federal statutes and regulations: _____

26. a. Does the broker/dealer offer any special incentives or contests based in whole or in part on sales commissions figures? Yes No If "Yes", please provide details on the program(s) offered, and the number of employees/Registered Representatives who have attained these goals over the past three years. _____

b. Do you have any investments on the approved product listing that offer commissions of five percent (5%) or more? Yes No If "Yes", attach full details describing the product(s) and your procedure(s) to monitor the sale of these products.

27. Number of full-time employees in Compliance Department: _____ Average length of employment _____

28. Number of Offices of Supervisory Jurisdiction ("OSJs") other than Home Office _____

29. Does the firm conduct audits? Yes No If "Yes", who conducts the audits, with what degree of regularity and in what manner (including, for example, whether they are regular or "surprise")?

30. Does the firm regularly issue activity letter and/or negative consent letters to its customers? Yes No

31. Does the firm have a general procedure regarding customer complaints, including the requirement that (1) complaints are responded to in a timely manner, and (2) that complaints are actively monitored and sorted by product and problem type? Yes No

If "Yes", please describe: _____

32. a. Does the firm have in place any procedure to ensure the new account forms are adequately completed, and reflect information actually obtained from the investor? Yes No If "Yes", please describe. _____

b. Describe the procedures for reviewing new accounts and for determining suitability of investments. Is a computer model used or provided? Yes No

c. Describe the procedures for verifying customer orders and determining that confirmations are accurate and received on time. _____

d. Does the firm require registered representatives to document each sale with a suitability checklist that evidences the suitability determination, contact customers for current information in order to assess suitability and liquidity needs, and advise the customer not to purchase the product where it appears to be unsuitable? Yes No

e. Does the firm maintain procedures to screen for specific suitability issues, including age, allocations that do not match investment objectives and investments that exceed a certain percentage of the customer's liquid net worth? Yes No

f. Does the firm maintain controls to prevent registered representatives from inappropriately recommending that a customer mortgage his or her home for the purchase of variable annuities or variable life insurance? Yes No

33. Does the firm require that written and accurate disclosures are made to customers pertaining to variable products, including fees, risks and tax implications? Yes No

34. Does the firm maintain comprehensive and current written supervisory procedures, requiring the review of every sale of variable product to ensure that it was appropriate, as well as the allocation of premium payments to underlying funds? Yes No

35. Does the firm have in place any procedure to ascertain changes in an investor's investment objectives? Yes No If "Yes", please describe: _____

36. Are there any internal guidelines in place concerning the maintenance of pertinent account information? Yes No If "Yes", please describe: _____

37. a. What percentage of the firm's current customers have signed agreements containing a mandatory arbitration provision? _____%
b. Does the firm ever agree to delete its arbitration provision from its customer agreements?
 Yes No
38. During the past five (5) years, has any employee or Registered Representative been targeted for "selling away" unapproved products? Yes No
If "Yes", please provide details, including any actual findings of "selling away":

39. Does the broker/dealer have any policy(ies) established to reduce the risk of "selling away?" If so, please describe details. _____

40. Was the firm audited by the SEC and/or NASD in the past year? Yes No
If "Yes", please provide a copy of the summary of the exam, including interview comments if formal letter is not yet received, and management's response, if any.
41. Has the Applicant (or its predecessors) or any of its Partners, Directors, Officers, Employees or Registered Representatives been disciplined, fined or suspended by the SEC, NASD, or other regulatory body in the past five (5) years? Yes No If "Yes", please attach full details.
42. During the past five (5) years, has the Applicant (or its predecessors), or any of its Partners, Directors, Officers, Employees or Registered Representatives ever been advised that it/they have been the subject of a formal investigation by the SEC, NASD, or any other regulatory body?
 Yes No If "Yes", please attach copies of all written materials supplied to any regulatory organization in response to such investigation, and provide the outcome/status of the investigation.
43. **Please attach a copy of your prior insurance carrier's loss runs for the past five (5) years. Such loss runs shall include the following information: claimant, Registered Representative, date of notice, open loss and expense reserves, paid loss and expense. In addition, for claims with combined loss and expense reserves or paid loss and expense in the amount of \$100,000 or more, include a narrative description of the facts giving rise to the claim.**
44. Of the total number of claims set forth in response to Questions 41, how many alleged claims for:
a. Unauthorized Trading _____
b. Churning _____
c. Unsuitability _____
d. Selling Away _____
45. Professional Liability Claim Information.

- a. Does any prospective insured person or entity have knowledge or information of any fact or circumstance or any actual or alleged act, error or omission which may be expected to give rise to a claim being made against the applicant or its directors, officers, agents, employees or Registered Representatives (include on a separate sheet description of method pursuant to which the applicant secures information from applicant's directors, officers, agents, employees and Registered Representatives responsive to this question)? Yes No

If yes, please explain in detail: _____

- b. Have any errors or omissions, judgment, settlement, payment, claim or suit seeking compensatory, punitive, exemplary, or extra contractual damages been made during the last five (5) years against the applicant or any of its directors, officers, agents or employees?

Yes No

If yes, please provide by attachment a listing of all such judgments, settlements, payments, claims or suits made in the past five (5) years, including details as to the date of the claim or suit, nature of the allegations, amount of damages sought, amount paid and current status.

IT IS AGREED WITH RESPECT TO QUESTIONS 41, 43(a) AND 43(b) THAT ANY CLAIM ARISING THEREFROM (WHETHER OR NOT DISCLOSED HEREIN) IS EXCLUDED FROM THE PROPOSED COVERAGE.

ATTACHMENTS

Please attach three copies of:

1. Signed and dated Application.
2. Latest yearend CPA audited financial statement including Form X17A5, Part III.
3. FOCUS Reports, Form X1 75A5 Part IIA, for last four (4) quarters.
4. Approved products list including but not limited to mutual funds, life insurance and annuities, proprietary products and limited partnerships.
5. New Account Form and any Suitability/Disclosure Forms.
6. Other contracts offered to clients including, but not limited to, Financial Planning Agreements, etc.
7. Agreement between Security Broker/Dealer and Registered Representative.
8. Summary of most recent SEC and/or NASD Examinations and management's response to each including exit interview comments, if formal examination letter is not yet received.
9. Company brochure or description of services.
10. Copy of product brochures for any products you manufacture and/or brochures for any proprietary services offered.
11. Supervisory Procedures and Compliance Manual.
12. U-4s for directors, officers, partners and principals of the Broker/Dealer.
13. Curriculum vitae of Chief Compliance Officer.

THE APPLICANT REPRESENTS THAT THE STATEMENTS AND FACTS CONTAINED IN THIS APPLICATION ARE TRUE, AND THAT NO MATERIAL FACTS HAVE BEEN MISSTATED, OR OMITTED. IT IS FURTHER AGREED BY THE APPLICANT THAT EACH POLICY OR RENEWAL THEREOF, IF ISSUED, IS ISSUED IN RELIANCE UPON THE TRUTH OF THE REPRESENTATIONS AND INFORMATION IN THE APPLICATION.

Applicant acknowledges a continuing obligation to report to us as soon as practicable any material changes in the facts and statements above, and in each supplemental application, of which applicant becomes aware after signing the application.

Completion of this application does not bind coverage. Applicant's acceptance of the Company's quotation is required prior to binding coverage and policy issuance. It is agreed that this form shall be the basis of the contract should a policy be issued.

Fraud Prevention – General Warning

NOTICE: ANY PERSON WHO, KNOWINGLY OR WITH INTENT TO DEFRAUD OR TO FACILITATE A FRAUD AGAINST ANY INSURANCE COMPANY OR OTHER PERSON, SUBMITS AN APPLICATION OR FILES A CLAIM FOR INSURANCE CONTAINING FALSE, DECEPTIVE OR MISLEADING INFORMATION MAY BE GUILTY OF INSURANCE FRAUD.

NOTICE TO ARKANSAS, LOUISIANA AND NEW MEXICO APPLICANTS: Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit, or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

NOTICE TO COLORADO APPLICANTS: It is unlawful to knowingly provide false, incomplete, or misleading facts or information to an Insurance Company for the purpose of defrauding or attempting to defraud the Company. Penalties may include imprisonment, fines, denial of insurance, and civil damages. Any Insurance Company or agent of an Insurance Company who knowingly provides false, incomplete, or misleading facts or information to a policyholder or claimant for the purpose of defrauding or attempting to defraud the policyholder or claimant with regard to a settlement or award payable from insurance proceeds shall be reported to the Colorado Division of Insurance within the Department of Regulatory Agencies.

NOTICE TO DISTRICT OF COLUMBIA APPLICANTS: Warning, it is a crime to provide false or misleading information to an insurer for the purpose of defrauding the insurer or any other person. Penalties include imprisonment and/or fines. In addition, an insurer may deny insurance benefits if false information materially related to a claim was provided by the applicant.

NOTICE TO FLORIDA APPLICANTS: Any person who knowingly and with intent to injure, defraud, or deceive any insurer files a statement of claim or an application containing any false, incomplete or misleading information is guilty of a felony in the third degree.

NOTICE TO KENTUCKY APPLICANTS: Any person who knowingly and with the intent to defraud any Insurance Company or other person files an application for insurance containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime.

NOTICE TO MAINE APPLICANTS: It is a crime to provide false, incomplete or misleading information to an Insurance Company for the purpose of defrauding the Company. Penalties may include imprisonment, fines or a denial of insurance benefits.

NOTICE TO NEW JERSEY APPLICANTS: Any person who includes any false or misleading information on an application for an insurance policy is subject to criminal and civil penalties.

NOTICE TO NEW YORK APPLICANTS: Any person who knowingly and with intent to defraud any Insurance Company or other person files an application for insurance or statement of claims containing any materially false information, or conceals for the purpose of misleading information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.

NOTICE TO OHIO APPLICANTS: Any person who, with intent to defraud or knowing that he is facilitating a fraud against an insurer, submits an application or files a claim containing a false or deceptive statement is guilty of insurance fraud.

NOTICE TO OKLAHOMA APPLICANTS: WARNING: Any person who knowingly, and with intent to injure, defraud or deceive any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information is guilty of a felony.

NOTICE TO PENNSYLVANIA APPLICANTS: Any person who knowingly and with the intent to defraud any Insurance Company or other person files an application for insurance or statement of claim containing any fact materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.

NOTICE TO PUERTO RICO APPLICANTS: Any person who knowingly and with the intent to defraud, presents false information in an insurance request form, or who presents, helps, or has presented a fraudulent claim for the payment of a loss or other benefit, or presents more than one claim for the same damage or loss, will incur a felony, and upon conviction will be penalized for each violation with a fine of no less than five thousand dollars (\$5,000) no more than ten thousand dollars (\$10,000); or imprisonment for a fixed term of three , or both penalties. If aggravated circumstances prevail, the fixed established imprisonment may be increased to a maximum of five (5) years; if attenuating circumstances prevail, it may be reduced to a minimum of two (2) years.

NOTICE TO TENNESSEE & VIRGINIA APPLICANTS: It is a crime to knowingly provide false, incomplete or misleading information to an Insurance Company for the purpose of defrauding the Company.. Penalties include imprisonment, fines and denial of insurance benefits.

NOTICE TO WASHINGTON APPLICANTS: It is a crime to knowingly provide false, incomplete, or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines, and denial of insurance benefits.

Important Reminder

The coverage for which you are applying is written on a CLAIMS-MADE basis and, subject to its provisions, applies only to claims first made against you and reported to the Company in writing during the policy period, unless an extended reporting period applies.

I/We declare that the above statements and particulars are true and that I/We agree that this application shall be the basis of the contract with the insurance company.

The undersigned certifies that he/she is the duly authorized representative of the applicant, which submits this application for a policy of insurance. The statements and information above, and all schedules and documents submitted are deemed parts of the application (all of which shall be deemed attached to the policy) and the word application refers to all of the foregoing.

Signature: _____

Title (Must be signed by an Officer, if a Corporation, a General Partner, if a Partnership.)

Date: _____