

## REGULATION BEST INTEREST DISCLOSURE

Integral Financial, LLC (“Integral” or “Firm”) is dually-registered with the U.S. Securities and Exchange Commission (“SEC”) as a broker-dealer and as an investment adviser with the State of California; however, the Firm is not presently offering investment advisory services.

As a valued brokerage client of Integral, you are receiving this Regulation Best Interest Disclosure to help you better understand the brokerage services we provide and the scope and terms of our brokerage relationship with you. Together with certain additional information that our Firm and your individual Integral financial professional will provide to you prior to or at the time we recommend a specific securities transaction (or investment strategy involving securities) for your brokerage account, this Disclosure is intended to satisfy certain requirements that apply to us under the SEC’s Regulation Best Interest.

You should read this Disclosure carefully, and as always, we encourage you to contact your Integral financial professional if you have any questions.

Specifically, this disclosure provides you with important information about the scope and terms of our brokerage relationship with you, including:

- the capacity (as your broker) in which we are acting when we recommend account types, securities, or strategies involving securities, to you;
- the type and scope of our brokerage services, including our overall investment philosophy and approach;
- material fees and costs that apply to your transactions, holdings, and accounts;
- material limitations on our brokerage services and recommendations; and
- conflicts of interest associated with our recommendations as your broker.

The discussions in this Disclosure apply to our brokerage services, and not our investment advisory services. Likewise, they apply to our relationships with “retail” customers. This means individuals (including their legal representatives) to whom we provide investment recommendations that are used primarily for personal, family, or household purposes. When we provide investment recommendations and other services to, or on behalf of, other types of investors (for example, corporations, pension plan trustees, etc.), different rules may apply.

## OUR CAPACITY AS YOUR BROKER

**All recommendations of securities transactions (and investment strategies involving securities) that are made by Integral and your Integral financial professional regarding your brokerage account will be made in our Firm’s capacity as your brokerage firm, and your financial professional’s capacity as an associated person of a brokerage firm, respectively.**

As explained in our Firm’s Form CRS (Customer Relationship Summary), there are important differences between brokerage and investment advisory services and fees. It is important for you to understand that, where we provide you with brokerage services (i.e., a brokerage account) we are not acting as your investment adviser. As your broker – we are compensated through commissions and other transaction-based charges.

## TYPE AND SCOPE OF OUR BROKERAGE SERVICES

As explained in our Customer Relationship Summary, as your broker-dealer we buy and sell securities and other investment and insurance products for you. As part of our services, we can provide you with investment recommendations. In all cases, you make the ultimate decision regarding the purchase or sale of investments. From time to time, your financial professional may review the holdings in your brokerage account to determine whether or not to make additional recommendations, but we do not monitor your brokerage account investments after purchase. We do not impose account or investment minimums to open a brokerage account, but some funds and other investment products we make available do impose minimum investment requirements.

We offer different types of brokerage accounts. For example, we offer accounts such as Individual, Joint Tenants with Rights of Survivorship, Trust, Corporate accounts, Traditional IRA, Roth IRA, SEP IRA, Health Savings, and Coverdell Education Savings accounts that are held at our clearing broker Hilltop Securities. We offer accounts that allow you to trade option contracts, and to otherwise invest on margin (i.e., through borrowed funds). In other cases, brokerage assets may be in “direct-held” accounts – for example, IRAs or other accounts held directly by and with a mutual fund family, or a state’s 529 (College Savings) Plan.

**Margin Lending.** We offer a margin lending service for your brokerage account (a “margin account”). Margin lending means that you borrow money from us to invest. You will need to use a margin account if you trade uncovered option contracts, or in certain other situations.

**Cash Sweep.** We offer a “cash sweep” program for uninvested cash in your brokerage account. Under our program, uninvested cash is automatically “swept” into accounts held with various third-party banks who are FDIC-insured. These participating banks pay interest on these deposits – part of the interest is credited to your account, and part of the interest is paid to Integral for our administration and management of the program.

**Our General Investment Philosophy and Approach.** Our belief is that investing should be personalized for each client. We do not believe in a “one size fits all” approach. Also, it is not our philosophy to limit the investments we offer and recommend to a narrow menu. While we believe that not every investment is suitable for every investor, our preference is to offer a wide variety of options for you to choose from, and to allow your Integral financial professional to help you construct a unique portfolio that suits your needs and preferences.

When your Integral financial professional recommends securities, or strategies involving securities, to you, he or she will consider the potential risks, rewards and costs in light of your investment profile. Your “profile” includes your age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information you share with us. And, your Integral financial professional will only make a recommendation to you if – at the time of the recommendation – he or she has a reasonable basis to believe that it would be in your best interest, and would not place our Firm’s interest (or the financial professional’s interest) ahead of yours. Before Regulation Best Interest Disclosure recommending a particular investment to you, we will also consider other reasonably available alternatives.

## **MATERIAL FEES AND COSTS**

**If you engage Integral to provide you with brokerage services, you will pay certain fees and costs.**

Some fees and costs are charged to your brokerage account for various services and expenses that do not necessarily depend on the specific investments you select. They include, but are not limited to, the following:

- Each time you buy or sell a stock or Exchange-Traded Funds (ETFs) investment on-line, we will charge you a \$9.95 transaction fee to help offset certain expenses we incur relating to settlement and clearance of your trade. Should you call in and speak with a firm representative to enter a buy or sell order in a stock investment the transaction fee is \$32.
- For orders in options, those entered on-line are charged \$9.95 per order plus \$1.75 per contract. Options orders entered over the phone are charged \$32 and \$2 per contract.
- For IRAs held at through Integral, we do not charge an initial fee to set up the IRA, but do charge an annual fee of \$45 to compensate us for our custody, administrative and other services.
- We will charge you a fee for each wire transfer we process – \$20 for domestic wires and \$50 for international wires.
- If you open a margin account, you will be charged interest on the funds that are lent to you for investment. Typically, the annual interest rate is between 5.5% and 7.5% depending on the amount you borrow, and certain other factors.
- Within our cash sweep program, we retain a portion of the interest paid by the participating banks for our administration and management of the program. Theoretically, the annual interest rate we receive could be up to 5%, but typically is between 0.0% and 1.5% depending on the current market interest rates and other factors.

**Before we open a brokerage account for you, we will furnish you with a comprehensive list of account related fees charged by our clearing firm, Hilltop Securities. The fees listed above are offered as examples, and are not an exhaustive list.**

**You will also pay – directly or indirectly – certain additional fees and costs that are particular to certain investments and investment transactions.** Below we summarize the material fees and costs associated with several types of investments insurance products that Integral and our financial professionals may recommend and sell to you as a retail customer. If we recommend an investment to you that is not addressed below, you will receive information about material fees and costs at the time or before the recommendation is made. Further, in many cases (and as required) we will provide additional, more detailed information with respect to the fees and costs associated with any specific investment or insurance product we recommend to you.

**Mutual Funds.** Mutual fund shares come in different classes, each with different fees and fee structures. The specific fee and fee structure of each share class, including the amount charged and when it is collected, vary depending on the particular mutual fund and are described in the mutual fund's prospectus. Not all share classes are available to all account types and/or investment strategy programs. The principal differences among the classes are the fees and expenses charged by the mutual fund. Fees and expenses in a mutual fund reduce the net asset value of the fund and the investment return. You

should review the fund prospectus prior to purchasing a mutual fund; a copy of each fund prospectus is provided with your confirmation.

- **Up-Front Sales Charges** – You will pay up-front sales charges to the applicable mutual funds upon the purchase as described in the prospectus. Many mutual funds allow for a reduction or waiver of the up-front sales charge based upon, among other things, the amount of your total investments in the particular mutual fund family, investor type, as well as the type of account in which the assets are invested. The sales charges range from 0% to 5.75% and reduce the amount of your principal investment.
- **Back-End Sales Charges** – These are sales charges that are applied by the applicable mutual fund upon the sale of a mutual fund share within a specified number of years (varies by prospectus). These sales charges are also referred to as Contingent Deferred Sales Charge or CDSC. These charges generally range from 1% to 5.5%, and typically are 4% for B shares and 1% for C shares. These charges can be reduced or eliminated based on how long the shares are held as described in the prospectus.
- **12b-1 Fees** – Many mutual funds pay a 12b-1 fee to Integral directly from the fund’s assets on a monthly or quarterly basis. Like other fees and expenses in the mutual fund, the payment of 12b-1 fees reduces the investment return. The amount of the 12b-1 fees paid varies among funds and share classes but is disclosed in the fund prospectus. The typical ranges for 12b-1 fees for A shares is between .15%-.50%, B shares .85% to 1.00%, and C shares .75% to 1.00%.

In addition, when you invest in a mutual fund, you will pay (indirectly, through deductions from your investment) your pro rata share of the investment management fees, auditor fees and other ongoing expenses incurred by the fund. Expressed as an annual percentage, these expenses are referred to as the fund’s expense ratio. Fund expense ratios differ significantly, but on average, independent data indicates that expense ratios for index (passively-managed) mutual funds usually average about 0.2%, while expense ratios for most actively-managed funds range from 0.5% to 1.0%, and in some cases may be as high as 2.5%. A fund’s expense ratio, sales charges and other important information are described in its prospectus. We encourage you to carefully review a fund’s prospectus before investing.

**Fixed Income Securities (Bonds) and Certificates of Deposit (“CDs”).**For securities purchased or sold in the secondary market, we will typically act in the capacity of a principal. As a principal, we execute trades on a riskless principal basis. Essentially, this means that when you enter an order for a fixed income security Integral goes to the market to purchase or sell that security. The security purchased or sold is placed into the firm’s inventory account and is simultaneously sold out of the account with commission-equivalent fee charge referred to as a mark-up (when you buy) or a mark-down (when you sell). As a percentage of the purchase or sale, our total mark-ups and mark-downs will typically average between 0.05% and 2.00%.

If your Integral financial professional recommends a new issue bond or CD to you, you will be furnished with an offering document which will include details on the compensation we would receive, and a number of other important matters.

**Options.**You pay a commission to buy or sell an option based on the number of contracts you trade. For any given dollar amount of total trading, a small number of large trades will usually cost you less money than a large number of small trades. The commission amount will be reflected on your trade confirmation. You should understand that, if the option is exercised, you may also pay a commission for the underlying security transaction as well, which is in addition to the option commission. You will also pay interest on margin borrowing you use to trade options in your brokerage account.

**529 (College Savings) Plans.** When you make contributions to a state's 529 Plan, your contributions are invested among various underlying investment options from which you choose. Typically, 529 Plans have share class structures (i.e., Class A vs. Class C), and pay us sales charges and trails, that largely mirror those of mutual funds – you may wish to review the discussion of Mutual Funds above. For example, as a percentage of the amount contributed, (similar to mutual funds) most 529 Plans charge typically averages between 0% and 5.75%. In addition to the compensation we receive for selling 529 Plans, you will pay additional fees and costs such as program management fees and maintenance fees, which are deducted from your underlying investment options. More detail about the sales charges and other fees and costs associated with a state's 529 Plan (and other important information) is provided in its offering document, which we encourage you to carefully review before making contributions.

**Structured Products.** For newly issued structured products, you will pay the offering price listed in the prospectus. The offering price includes a “selling concession” which is what is paid to Integral for the distribution of the product. The selling concession is the difference between what we purchase the product for and what we sell the product for to the public. The offering price also includes costs and fees of the issuer associated with the structuring of the product.

For structured products purchased or sold in the secondary market, you will pay a mark-up (for purchases) or a mark-down (for sells) that consists of the commission as well as the percentage of the of the principal amount that the Integral trading desks includes as part of the transaction. This markup or mark-down typically ranges between 1% and 3%. Generally, structured notes do not trade frequently on the secondary markets, meaning you may need to hold the note until maturity. More detail about the various fees and costs associated with an investment in a specific structured note (along with other important information) is provided in its prospectus. We strongly encourage you to carefully review a structured note's prospectus before investing.

**Variable Annuities and Variable Life Insurance.** If your Integral financial professional is licensed to sell annuities and other insurance products, he or she may recommend that you purchase a variable annuity or a variable life insurance policy. Variable annuities and variable life insurance policies are regulated by the SEC as securities (in addition to state insurance regulation). The value of the contract is based on the investment options, such as sub-accounts or directly into the general account of the insurance company that manages the investment portfolios that you selected. If you buy a variable annuity or life insurance policy through Integral, we will receive an insurance commission from the issuing insurance company. The commission ranges from 4% to 7%. In many cases, the insurer will also pay us trail compensation for ongoing services and maintenance as long as you continue to hold the annuity or policy, which will not exceed 1.5% annually. Like mutual funds and 529 Plans, many variable annuities offer different share classes. Typically, some share classes will pay us higher up-front commissions but lower trails, while others will pay lower up-front commissions but higher trails.

With any purchase of a variable annuity or variable insurance policy, the single most significant cost you will incur is the premium(s) you will pay to the insurance company for coverage. You will also pay various annual fees described below that are deducted from the annuity contract value by the insurance company. The specific amounts of all fees are disclosed in the contract which you receive directly from the insurance company.

- **Mortality Risk and Expense (M&E)** – This is an annual charge that compensates the insurance company for insurance risks it assumes under the annuity contract. The charge generally ranges from 1% to 1.70%
- **Administrative Fee and Annual Maintenance Fee** – this annual charge covers recordkeeping and other administrative fee expenses. The administrative fee is a percentage of the account value and generally

ranges from 0% to .15%. The annual maintenance fee is a flat fee, generally ranging from \$25-\$50 and is typically waived for contract values over \$50,000 or \$100,000.

- **Investment Management Fees and Expenses** – These fees and expenses are paid to the firms that manage the investment portfolios and may include affiliates of the insurance company. These vary depending on which investment portfolios you choose.
- **Fees for Optional Riders** – Optional riders are provisions that may be added to an annuity contract to increase or limit benefits the contract otherwise provides. You will be charged additional fees if you select optional contract features at the time of purchase.
- **Surrender Charge or Contingent Deferred Sales Charge (CDSC)** – If you withdraw money from a variable annuity within a certain period after purchase (typically between 3 to 7 years), the insurance company usually will assess a “surrender charge” which is a type of sales charge.
- **Premium Taxes** – Several states impose a premium tax on variable annuity purchases either at the time of purchase or at annuitization. The tax may be as high as 5% of either the purchase payments or the total value of the annuity contract depending upon the state. The insurance company is responsible for paying this tax and will usually pass the cost on to you.

Variable annuities and variable life insurance policies are complex products and typically have intricate fee and cost structures. More detail about the fees and costs associated with a particular variable annuity or variable life insurance policy (along with other important information) is provided in its prospectus or other policy documents, which we strongly encourage you to read carefully before any purchase.

## **MATERIAL LIMITATIONS ON OUR SERVICES AND RECOMMENDATIONS**

**As explained in our Customer Relationship Summary, Integral is a full service securities broker-dealer. However, there are material limitations on the services, securities and strategies involving securities that we – and in some cases certain of our financial professionals - can offer to you:**

**Investment Limitations.** We offer a wide range of investments, including funds from over 450 fund families, along with numerous other securities, investments and insurance products. However, we do not offer every investment in the marketplace. In particular, we can only sell mutual funds, UITs, annuities and insurance policies, and certain other products, from issuers with whom we have selling or distribution agreements.

**No Monitoring.** When we act as your broker, our Firm and our financial professionals do not monitor your brokerage account investments after they are purchased. We are always here to serve you, and to answer your questions. Also, your financial professional may – from time to time – review the investments in your account to determine whether to make additional recommendations to you. But we do not monitor your brokerage account or holdings. If you wish to receive regular monitoring of your investments, you may wish to consider whether a wrap fee or other investment advisory account might be a better overall choice for you.

**No Discretionary (Investment Management) Services.** When we act as your broker, our Firm and our financial professionals cannot make investment decisions for you, and we cannot manage your brokerage account on a discretionary basis. This means that we cannot buy or sell an investment for your brokerage

account without first obtaining your authorization. While we may recommend investments to you, you are responsible for making the ultimate decision whether to purchase or sell investments.

**Certain Regulatory Restrictions.** Most of the investments we offer are available to all of our retail customers, but there are some exceptions. For example, before purchasing interests in some alternative investment products (such as Structured Investment) you may have to meet certain financial and other tests in order to qualify as an “accredited investor,” a “qualified purchaser” and/or a “qualified client,” depending on the specific fund and its requirements. Likewise, under industry rules and regulations, if you have certain associations within the financial services industry, you may be considered a “restricted person” who is prohibited from purchasing “new issue” securities through IPOs and similar offerings.

## **CONFLICTS OF INTEREST ASSOCIATED WITH OUR RECOMMENDATIONS**

**As explained in our Customer Relationship Summary, when our Firm and our financial professionals make recommendations to you as your broker, we have an obligation to act in your best interest and not put our interests ahead of yours. However, the ways in which we make money create some conflicts with your interests:**

**Volume of Trading; Investment Amounts.** Our Firm charges a commission (or commission-equivalent, such as a mark-up or mark-down) each time you buy or sell ETFs, stocks, fixed-income investments, options, or other investments that are exchange-traded. The more frequently you trade, the more commissions we will charge you. Also, we typically are paid a sales charge or other commission each time you invest in a mutual fund, 529 Plan, or an insurance commission if you buy an annuity or insurance policy. The amounts of the commissions and other charges we receive can increase the larger your trades or investments are in products such as 529 Plans and mutual funds. Furthermore, our financial professionals receive a portion of these revenues through a salary and discretionary bonus program. Therefore, both our Firm and our financial professionals have a financial incentive to recommend that you buy and sell investments and insurance products often, and make large trades and investments.

**Third-Party Payments.** The sales charges, sales commissions, insurance commissions and similar payments (including trail commissions, 12b-1 fees, etc.) that we receive for selling investment products such as mutual funds, 529 Plans, annuities and other insurance products vary from product type to product type. They also vary in many cases from product to product even within a single category (for example, one mutual fund might pay us a 4.0% sales charge while another might pay us a 5.0% sales charge). And again, if your financial professional sells a product to you, he or she will may receive a portion of the revenues paid to our Firm in the form of a salary and discretionary bonus. Therefore, both our Firm and our financial professionals have a financial incentive to offer and recommend investment and insurance products that pay us higher commissions and other fees than those that pay us lower commissions and other fees.

**Principal Trades.** When we sell you fixed-income investments or other securities from our own account (or buy them from you for our own account), the mark-up or mark-down we charge may be more than the commission we would charge for a similar transaction between you and a third-party investor (i.e., where we act only as your agent). Therefore, our Firm and our financial professionals have incentives to recommend principal trades to you. Also, we receive additional underwriting and distribution compensation where we sell you securities offered through an IPO or otherwise on the primary market.

**Rollovers.** Regardless of the services and investments you select, our Firm and your financial professional will make more money if you roll over assets from a retirement plan to an IRA with Integral. Therefore, both our Firm and our financial professionals have a financial incentive to recommend retirement plan

rollovers to IRAs serviced by us. Even if the retirement plan from which the rollover comes is with Integral, we will still make more money under an IRA because the plan will likely qualify for less expensive institutional class (or Retirement (R)-Class) fund shares (see Share Classes below).

**Account Transfers.** Similar to rollovers, our Firm and your financial professional will make money if you transfer assets in an IRA or other investment account with another financial institution to an account with Integral. For example, you might have investment accounts at multiple firms, or this could also occur if your financial professional recently left another firm and joined Integral. Both our Firm and our financial professionals have a financial incentive to recommend transfers of IRAs and other accounts at other institutions to accounts serviced by us.

**Share Classes.** Some investment products we offer and recommend to clients feature share class structures, including mutual funds, 529 Plans and variable annuities. Typically, some share classes will pay us higher up-front sales charges and similar payments but lower recurring payments (such as 12b-1 fees and trails), while others will pay us less up-front but more on a recurring basis. For this reason, some share classes are expected to be less expensive for long-term investors, and others are expected to be less expensive for short-term investors. In most cases, our Firm and our financial professionals will receive more compensation if you choose a share class that is more costly to you. Our financial professionals are required to consider your expected investment time horizon before recommending a particular share class. However, you should also understand that mutual funds typically offer advisory or institutional share classes that are less expensive than the share classes available to you through your retail brokerage account, and may offer share classes that are utilized for certain retirement plans as well. These share classes will not be available to you.

**Product Discounts.** Some investment products may offer discounts that will reduce the sales charges and other commissions we receive as a Firm, and thus, the compensation our financial professionals receive. For example, some mutual fund families offer sales charge discounts at certain “break points” based on the total dollar amount of your investments, or if you sign a letter of intent (LOI) to invest a certain amount in their funds. Since they reduce our revenues, our Firm and our financial professionals have a financial incentive not to encourage you to take advantage of such discounts.

**Retirement Plans.** Through our Firm’s retirement plans, our individual financial professionals may receive profit sharing, matching or other employer contributions that may be based in whole or part on the overall financial performance of the Firm. This may provide an additional financial incentive for our financial professionals to increase commission and fee revenues for the Firm (even revenues that are not shared with our financial professionals directly).

**Financial Professionals’ Outside Business Activities.** Some of our individual financial professionals may engage in outside business activities for compensation. As a result, they may have a financial incentive to spend time on those outside activities, rather than on providing services to our brokerage customers. You can research outside business activities your financial professional may have, for which he or she receives compensation, at [brokercheck.finra.org](http://brokercheck.finra.org).