NASAA REPORT ON BROKER-DEALER POLICIES & PROCEDURES FOR LEVERAGED AND/OR INVERSE EXCHANGE-TRADED FUNDS

JULY 2019

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION

Executive Summary

Exchange-traded funds (ETFs) have become popular investment vehicles for investors who want liquidity and investment costs that are generally lower than actively managed mutual funds. Traditional ETFs are typically structured such that their performance will closely approximate the performance of their underlying reference assets over an extended period of time. Non-traditional ETFs, such as those that are leveraged and/or inverse[1], however, perform differently than traditional ETFs.

Leveraged and inverse ETFs are typically designed to achieve their performance objectives on a daily basis. As a result, the performance of these ETFs over a period of time longer than one day can differ significantly from their stated daily performance objectives. Registered representatives who recommend these products without fully understanding them and without receiving appropriate supervision by their firms pose a risk to investors.

Several NASAA member jurisdictions, led by the Broker-Dealer Section's Investment Products and Services Project Group, collected information via an inquiry sent to broker-dealers, to gain a better understanding of whether broker-dealers are recommending the purchase and sale of leveraged and/or inverse ETFs and, if those purchases and sales are permitted, how firms are supervising such transactions. This inquiry yielded 118 responses,

[1] Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track. Inverse ETFs seek to deliver the opposite of the performance of the index or benchmark they track. Leveraged inverse funds seek to achieve a return that is a multiple of the inverse performance of the underlying index. References in this report to leveraged and/or inverse ETFs means ETFs that are either leveraged or inverse, or both.

which serve as the basis for this report. Of these firms, 86 (73%) allowed leveraged and/or inverse ETFs to be held in retail customer accounts. With respect to these 86 firms:

- 52% permitted representatives to recommend leveraged and/or inverse ETFs to customers;
- 83% of the firms allowing leveraged and/or inverse ETFs in customer accounts confirm they have policies and procedures to address ETFs that are leveraged and/or inverse. However, only 59% address the review of customer suitability, and only 26% generate an exception report for positions held longer than one trading session.

The analysis of these responses resulted in a recommendation that firms review and update their supervisory procedures as they apply to leveraged and/or inverse ETFs.

Background Including Past Enforcement Matters

This effort to gather and analyze data involving leveraged and/or inverse ETFs was, in part, prompted by customer complaints investigated by NASAA members. These complaints include instances where the registered representatives seemed unaware that leveraged and/or inverse products are not intended for long-term holding. Several examples that resulted in NASAA member enforcement actions are presented below.[2]

[2] The abuse of leveraged and/or inverse ETFs is not limited to broker-dealers. For instance, in 2015, an investment adviser was ordered with respect to one client to pay a civil penalty of $25,000 and restitution in the amount of $94,720 by the Office of Kansas Securities Commissioner. Additionally, the adviser placed almost all of his 160 retail clients in leveraged and inverse ETFs and held the ETFs for timeframes lasting longer than a day

A registered representative was barred from future registration in Oklahoma in January 2018 after he recommended hundreds of unsuitable transactions in leveraged and/or inverse ETFs and exchange traded notes in more than 60 non-discretionary customer accounts. Almost all of the positions were held for longer than one trading session, and some positions were held for close to a year.[3]

In 2012, RBC Capital Markets, LLC (RBC) was fined $250,000 by the Massachusetts Securities Division and ordered to pay up to $2.9 million in restitution to its customers for unsuitable recommendations of leveraged and/or inverse ETFs. RBC allowed its registered representatives to sell these non-traditional ETFs to customers without understanding the product. RBC's representatives did not read the ETF prospectuses, yet they recommended these products for customers with a balanced/conservative investment objective. The representatives' customers held the leveraged and/or inverse ETFs for months, and in some cases for over a year despite the recommended holding period of less than one day. At the time these products were sold, RBC did not have any required training on the use or suitability of leveraged and/or inverse ETFs nor did RBC have policies to address their purchase or sale. In essence, RBC did not treat or supervise non-traditional ETFs any differently than traditional products it offered on its platform.[4]

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and often over 100 days. It was found the adviser did not adequately understand the risks associated with the purchase of non-traditional ETFs, and therefore engaged in a dishonest or unethical practice and a breach of fiduciary duty. *See In the matter of Mark R. Schneider (Office of Kansas Securities Commissioner) May 1, 2015.* Available at: https://www.ksc.ks.gov/ArchiveCenter/ViewFile/Item/634

[3] *In the Matter of Jay Dee Jordan* (Oklahoma Docket No: ODS File 17-010) January 19, 2018. Available at: https://securities.ok.gov/Enforcement/Orders/PDF/FinalOrder-Agmt_JayJordan_17-010.pdf.

[4] *In the Matter of RBC Capital Markets, LLC and Michael D. Zukowski* (Massachusetts Securities Division Docket No. 2011-0037) May 2, 2012. Available at: http://www.sec.state.ma.us/sct/archived/sctrbc/rbcidx.htm

In the following year, New Jersey entered into a Consent Order with Morgan Stanley finding that the firm failed to provide adequate formal training to its registered representatives regarding the unique features, risks, and characteristics of leveraged and/or inverse ETFs, and that Morgan Stanley failed to establish a reasonable supervisory system concerning sales of leveraged and/or inverse ETFs. The New Jersey Consent Order included examples of several unsuitable transactions solicited by representatives that involved elderly customers, who sustained account losses after holding leveraged and/or inverse ETFs for several months.[5]

Regulatory guidance for firms regarding leveraged and/or inverse ETFs has been issued by FINRA on multiple occasions. For instance, in a June 2009 regulatory notice, FINRA reminded firms that "inverse and leveraged ETFs that are reset daily typically are unsuitable for retail investors who plan to hold them for longer than one trading session, particularly in volatile markets."[6] The notice reminded firms that recommendations must be suitable, sales material must be fair and accurate, and supervisory procedures must be adequate to meet these obligations.

FINRA also highlighted the need to perform a reasonable-basis suitability analysis, which, with respect to leveraged and inverse ETFs, "means that a firm must understand the terms and features of the funds, including how they are designed to perform, how they achieve that objective, and the impact that market volatility, the ETF's use of leverage, and the

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[5] *In the matter of Morgan Stanley & Co. LLC* (New Jersey Bureau of Securities) July 29, 2013. Available at: https://www.njconsumeraffairs.gov/Actions/20130729_CRD8209Morgan_Stanley_Co_Non-Traditional_ETFs-Consent-Order.pdf.

[6] FINRA Regulatory Notice 09-31: *Non-Traditional ETFs: FINRA Reminds Firms of Sales Practice Obligations Relating to Leveraged and Inverse Exchange-Traded Funds* (June 2009), at 1. Available at: http://www.finra.org/sites/default/files/NoticeDocument/p118952.pdf.

customer's intended holding period will have on their performance."[7] In a January 2012 regulatory notice, FINRA identified leveraged and inverse ETFs as having the characteristics of "complex products" that require heightened supervisory and compliance procedures.[8]

In the years that followed its regulatory guidance, FINRA pursued disciplinary actions against firms, resulting in numerous Letters of Acceptance, Waiver, and Consent (AWCs). In consolidating the findings made against the broker-dealers in the AWCs, the following conclusions were prevalent:

- The firm's general supervisory system was not sufficiently tailored to address the unique features and risks involved with leveraged and/or inverse ETFs.
- The firm failed to perform any reasonable basis suitability analysis of leveraged and/or inverse ETFs to understand the unique features and specific risks associated with these products before offering them to its retail customers.
- The firm's representatives recommended leveraged and/or inverse ETFs without fully understanding the features and risks associated with the products, resulting in unsuitable recommendations to customers with conservative investment objectives and risk tolerances, some of whom were elderly.
- The firm failed to develop any system or procedure to monitor, review or evaluate the length of holding periods in leveraged and/or inverse ETFs, or failed to enforce an existing procedure to monitor the holding period.

[7] *See* Notice 09-31, at 3.

[8] FINRA Regulatory Notice 12-03: *Complex Products: Heightened Supervision of Complex Products* (January 2012), at 4.

- The firm allowed customers to hold leveraged and/or inverse ETFs over extended periods of time, resulting in significant losses.

More recently, FINRA stated in the Sales Practice/Suitability section of its 2019 Risk Monitoring and Examination Priorities Letter (Exam Priorities Letter) that it may focus on recommendations to purchase and hold products for a period of time that is inconsistent with the security's performance characteristics, such as a recommendation to hold a security that is intended for short-term trading. The Exam Priorities Letter states:

> *"As the exchange-traded product (ETP) market continues to grow with novel and increasingly complex products, FINRA will evaluate whether firms are meeting their suitability obligations and risk disclosure obligations when recommending such products. These include leveraged and inverse exchange-traded funds (ETFs), floating-rate loan ETFs (also known as bank-loan or leverage loan funds) and mutual funds that invest in loans extended to highly indebted companies of lower credit quality."*

Cautionary advice in alerts to investors regarding these products has been issued by the SEC, FINRA, and NASAA, and appears on their websites. These alerts warn investors of the additional risks associated with buying and holding leveraged or inverse ETFs and the need for investors to clearly understand these products before investing in them. For instance, in a 2011 Investor Alert on Exchange Traded Funds, NASAA cautioned that, "[s]ynthetic products like leveraged or inverse ETFs are not appropriate for 'buy and hold' investors because an ETF may reset each day, and its performance may quickly deviate from the underlying index, currency, commodity or basket of assets it is attempting to mirror. In other words, it is possible

your ETF could suffer significant loss even if the long-term performance of an index or sector shows a gain."[9]

The SEC and FINRA, addressing potential investor confusion regarding these products, issued a joint investor alert in 2009 titled, "Leveraged and Inverse ETFs: Specialized Products with Extra Risks for Buy-and-Hold Investors." The alert cautioned that "[i]nvestors should be aware that performance of these ETFs over a period longer than one day can differ significantly from their stated daily performance objectives." The alert provided specific examples of how it is possible to suffer significant losses when holding non-traditional ETFs longer than one day even if the long-term performance of the underlying index showed a gain.[10]

Despite these repeated warnings to investors, front line training and supervision remains the responsibility of firms who permit their registered representatives to engage in transactions involving leveraged and/or inverse ETFs.

Analysis of Results

NASAA's Investment Products and Services Project Group members reviewed 118 responses from broker-dealer firms of various sizes. These firms used business models that were employee-based, supported by independent contractors, or some combination of both.

Firms Not Allowing Leveraged/Inverse ETFs in Customer Accounts:

[9] *Informed Investor Advisory: Exchange Traded Funds.* (NASAA) Available at: http://www.nasaa.org/2639/exchange-traded-funds/

[10] *Leveraged and Inverse ETFs: Specialized Products with Extra Risks for Buy and Hold Investors.* (SEC and FINRA). Available at: https://www.sec.gov/investor/pubs/leveragedetfs-alert.htm.

The initial question posed to the broker-dealers surveyed was whether their firms allowed the purchase, sale, or receipt of leveraged and/or inverse ETFs in customer accounts on either a discretionary or non-discretionary basis. Thirty-two firms (27%) responded that they did not allow leveraged and/or inverse ETFs in customer accounts (and therefore could avoid completing the remainder of the inquiry). The Investment Products and Services Project Group considers it notable that nearly a third of the firms responding to its inquiry have no involvement with leveraged and inverse ETFs.

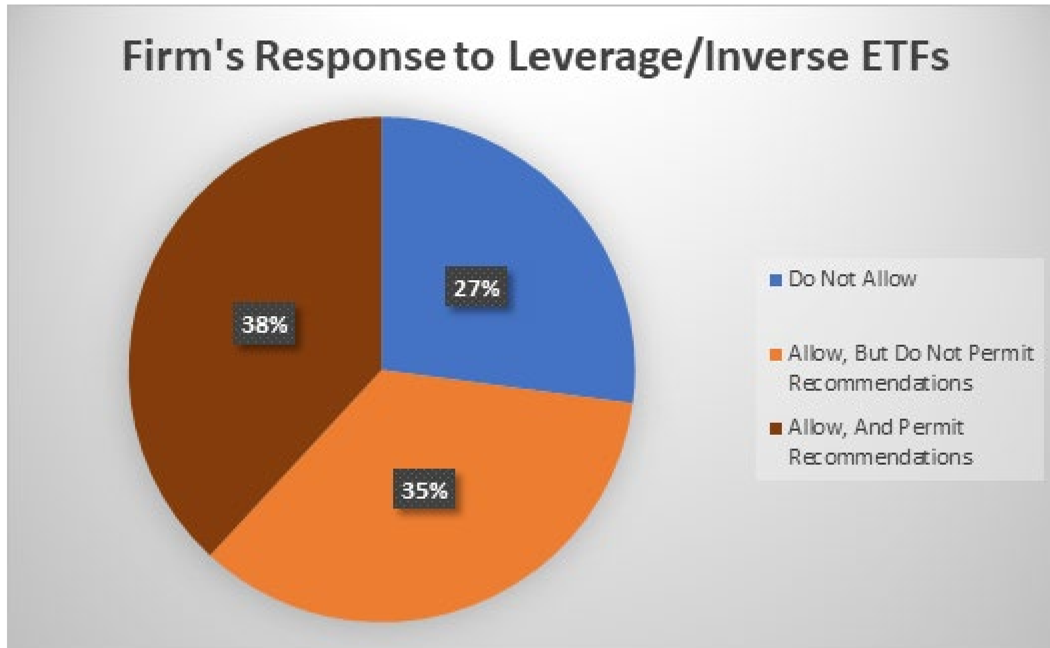
Firms Allowing Leveraged/Inverse ETFs in Customer Accounts:

Eighty-six firms (73%) responded that they permit customers to hold leveraged and/or inverse ETFs in their accounts. These 86 firms will be referenced below as "Firms Allowing L/I ETFs."

Most (73 firms, or 85%) of the Firms Allowing L/I ETFs in customer accounts will allow these products to be transferred into accounts (via ACAT) after which some firms permit only unsolicited purchase or sale transactions. Among the Firms Allowing L/I ETFs, only 18 firms (21%) maintain a list of approved leveraged and/or inverse ETFs.

Of particular interest to the Investment Products and Services Project Group were the responses to whether the firm permits registered representatives to make recommendations to customers with respect to leveraged and/or inverse ETFs. The 45 firms (52% of Firms Allowing L/I ETFs) that do permit recommendations of these products will be discussed in greater detail in a separate section of this report.

For those 86 Firms Allowing L/I ETFs, NASAA's inquiry proceeded to ask further questions about customer suitability, supervision, and training.

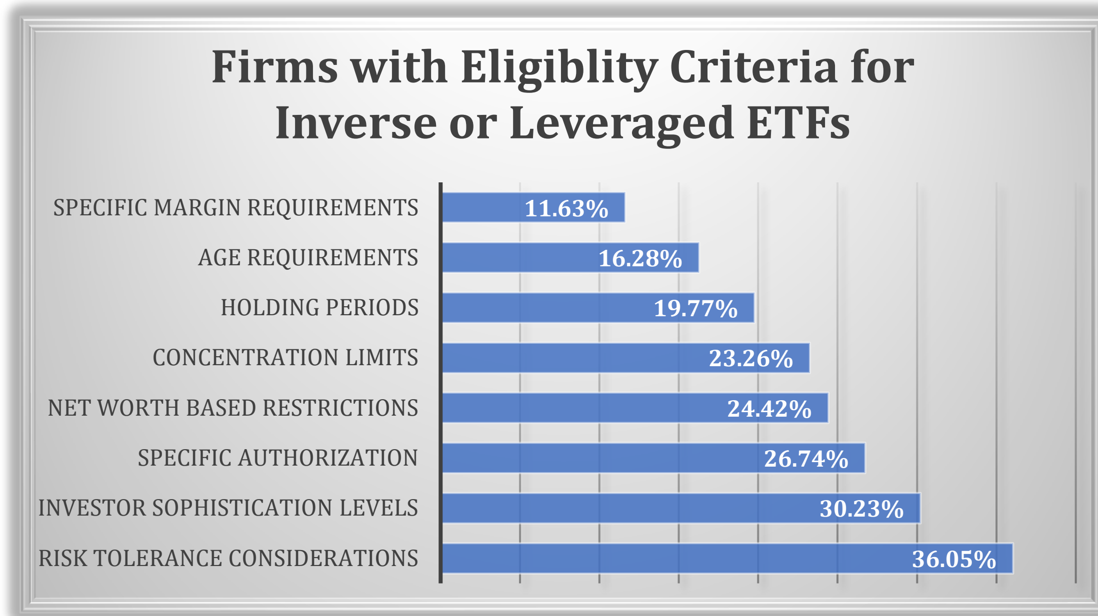


Customer Suitability

Broker-dealers and their registered representatives should be familiar with each customer's financial situation, trading experience, investment horizon, and risk tolerance prior to recommending any security.[11] The inquiry therefore asked whether the firm set eligibility criteria that customers must meet before the firm will execute non-discretionary purchases of leveraged and/or inverse ETFs. Significantly, 31 broker-dealers (36% of the Firms Allowing L/I ETFs) responded that the firm had no established eligibility criteria for customers who wished to purchase leveraged and/or inverse ETFs. As shown below, of the various possible eligibility requirements (e.g., net worth) or limitations (e.g., concentration limits), in all

[11] *See* FINRA Rule 2111, *Suitability*.

instances, less than 40% of the Firms Allowing L/I ETFs enforced these potential restrictions against customer purchases.



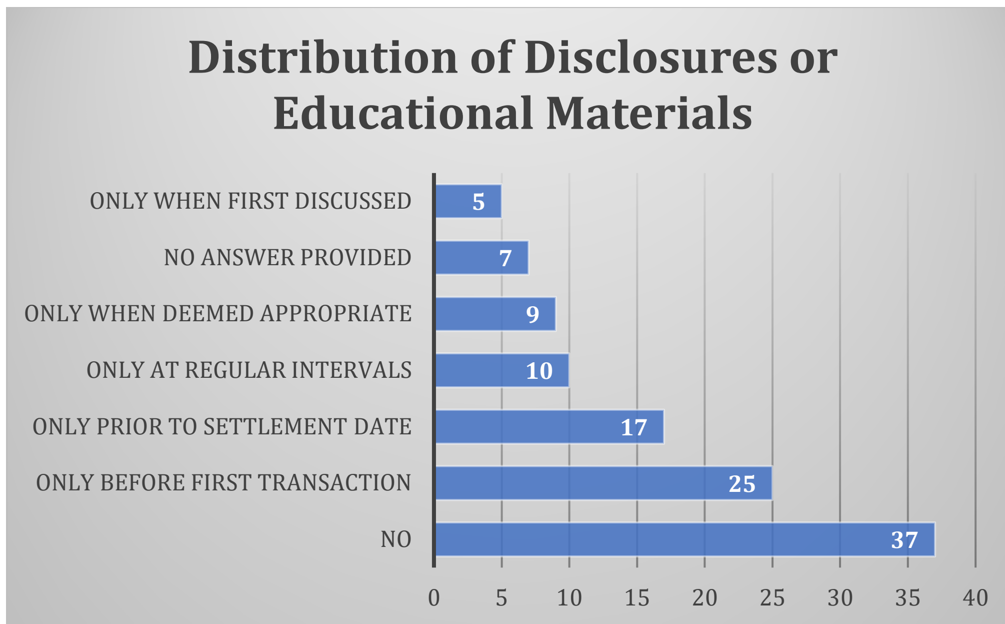
The majority of the Firms Allowing L/I ETFs (71 firms, or 83%) affirmatively responded that their written supervisory policies and procedures (WSPs) specifically address leveraged and/or inverse ETFs. However, only 16 of the Firms Allowing L/I ETFs (19%) have WSPs that address leveraged and/or inverse ETF concentration limits. Of these 16 firms, the concentration limits varied widely. Three firms allow concentration limits to be set on a case-by-case basis; seven firms set concentration limits between 5 – 10% of liquid or household net

worth; three firms allow concentrations of 25 – 30%; and one firm allows a concentration of up to 40%.[12]

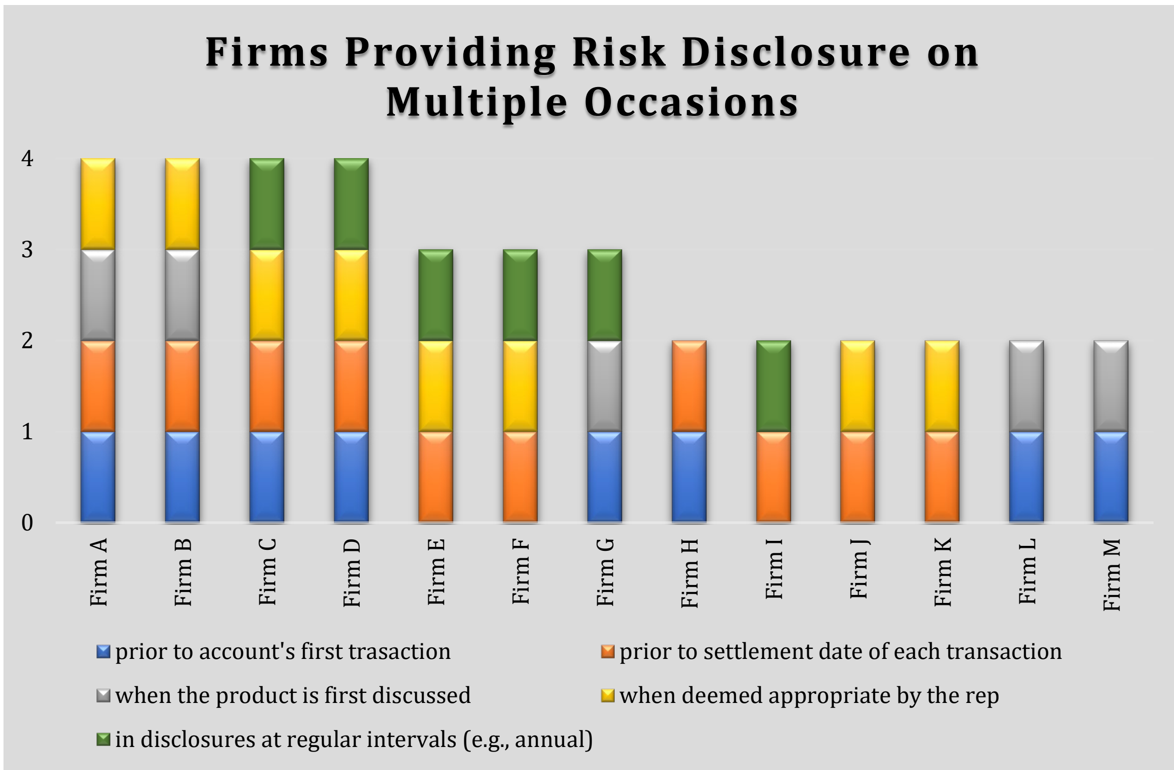
The inquiry next asked whether the firms provided customers with any educational materials or written disclosures regarding the risks of leveraged and/or inverse ETFs, other than the ETF prospectus. Forty-one of the Firms Allowing L/I ETFs (48%) provide educational materials or disclosures to their clients that specifically address the risks of leveraged and/or inverse ETFs ("Firms Providing Risk Disclosures"); the other 45 firms do not.

Firms Providing Risk Disclosures were asked about the timing of their delivery of the risk disclosures. Of the Firms Providing Risk Disclosures, only 5 firms (12% of the Firms Providing Risk Disclosures) provided the additional disclosure when leveraged and/or inverse ETFs were first discussed. Firms Providing Risk Disclosures were more likely to provide additional risk disclosures before the first transaction (25 firms, or 61%); prior to the settlement date (17 firms, or 42%); or at regular intervals such as annually (10 firms, or 24%). Nine firms (22% of Firms Providing Risk Disclosures) answered that the registered representative can provide the risk disclosure when the representative deems it appropriate.

[12] The remaining two firms did not provide information regarding how they address concentration limits in their WSPs.



Thirteen of the Firms Providing Risk Disclosures do so on more than one occasion as indicated by the survey responses and summarized in the chart below. For instance, four of the Firms Providing Risk Disclosures do so on four separate occasions including prior to the account's first transaction in leveraged and/or inverse ETFs, prior to the settlement of each transaction, and whenever deemed appropriate by the representative. Interestingly, it appears slightly less common for the representative to provide risk disclosures when leveraged and/or inverse ETFs are first discussed with the customer.



Supervision

The majority of the Firms Allowing L/I ETFs (71 firms, or 83%) affirm that their written supervisory policies and procedures specifically address leveraged and/or inverse ETFs. Of these 71 firms, 51 (59% of the Firms Allowing L/I ETFs) have WSPs that address the review of customer suitability for transactions in leveraged and/or inverse ETFs.

Only 23 firms (27% of Firms Allowing L/I ETFs) subject customer orders to a heightened suitability review prior to executing transactions in leveraged and/or inverse ETFs.

Of the 23 firms that do require a heighted suitability review, only 13 firms require a heightened suitability review when the holding period of the leveraged and/or inverse ETFs exceeds one trading session. Interestingly, ten firms do not require a heightened suitability

review before trade execution but do require a suitability review if the leveraged and/or inverse ETFs are held beyond one trading period.

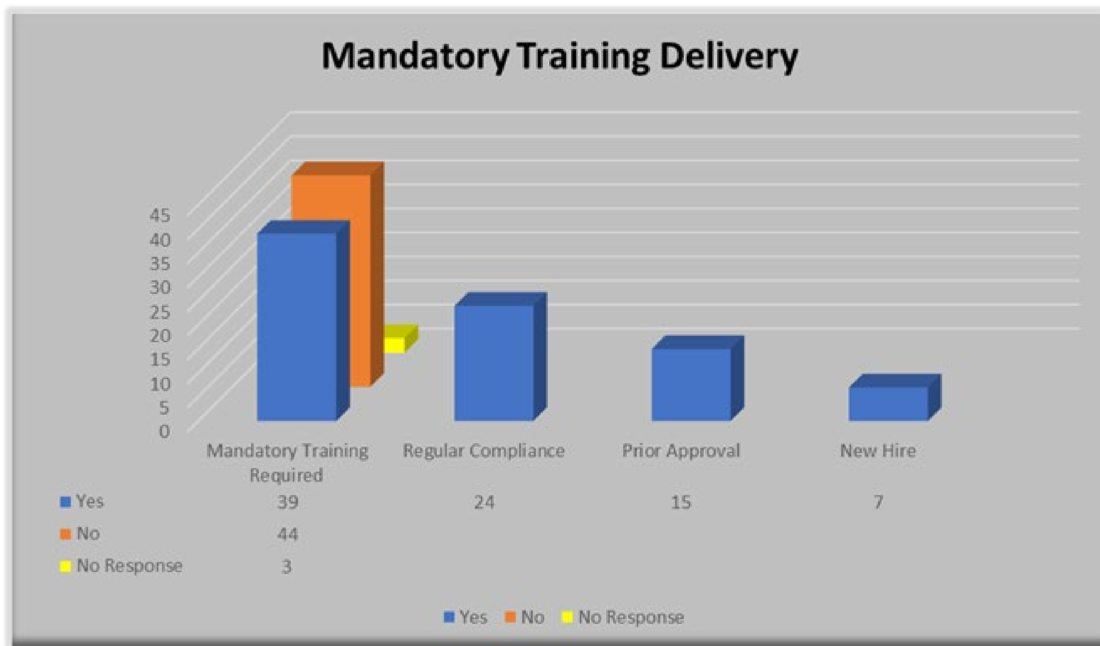
Only approximately one-third of the Firms Allowing L/I ETFs (29 firms, or 34%) monitor the holding period of positions in leveraged and/or inverse ETFs through their exception reporting systems, and even less (22 firms, or 26% of Firms Allowing L/I ETFs) generate an exception report if positions in these products are held longer than one trading session. In addition, the supervisory systems of 61 of the Firms Allowing L/I ETFs (71%) do not require a heightened supervisory review if leveraged and/or inverse ETFs are held longer than one trading session.

Training

Given the complexity of leveraged and/or inverse ETFs and the limited circumstances for which they are suitable, the risk of a registered representative making an unsuitable recommendation regarding a leveraged and/or inverse ETF significantly increases if there is a lack of training regarding the characteristics and suitability of the products. Less than half of the Firms Allowing L/I ETFs (39 firms, or 45%) indicated that they provide mandatory training to registered representatives specifically related to leveraged or inverse ETFs ("Firms With Mandatory Training").

At the Firms With Mandatory Training, 24 firms (62% of Firms With Mandatory Training) conduct the training at some point during regular compliance training. Mandatory training may also be part of a prior approval process with 15 firms (38% of Firms With Mandatory Training) delivering training to those registered representatives seeking approval to

sell leveraged and/or inverse ETFs. Mandatory training takes place as part of new hire training at 7 firms (18% of Firms With Mandatory Training).



Only a quarter of the Firms Allowing L/I ETFs (22 firms, or 25% of Firms Allowing L/I ETFs) stated that their registered representatives need to be approved for transactions in these complex products prior to entering customer orders. As stated above, only 15 firms impose mandatory training prior to approving a representative to sell leveraged and/or inverse ETFs. Without mandatory training, some firms could be approving representatives to sell these products without ensuring they have sufficient knowledge and understanding of the risks associated with leveraged and/or inverse ETFs.

Where training is not mandatory, less than a third of the Firms Allowing L/I ETFs (27 firms, or 31% of Firms Allowing L/I ETFs) offer ongoing training or guidance specifically

related to leveraged and/or inverse ETFs to their registered representatives, beyond what is provided in the firm's written policies and procedures.

Other Findings

Based on the responses to additional questions, the number of customer complaints, regulatory actions and arbitration awards or civil judgments regarding leveraged and/or inverse ETFs in recent years at the surveyed broker-dealers was low. For instance, 62 firms (72% of the Firms Allowing L/I ETFs) indicated they had not received any customer complaints in the past 3 years.

Consistent with the premise that leveraged and/or inverse ETFs are not suitable for most customers, the percentage of the Firms Allowing L/I ETFs customers holding these products is fairly nominal, with usually less than 10% and often less than 1% of customers holding such products. Similarly, the percentage of the firms' commissions generated from leveraged and/or inverse ETFs was often indicated to be less than 1%.

Firms that Permit Representatives to Recommend Leveraged and/or Inverse ETFs

Forty-five of the Firms Allowing L/I ETFs permit registered representatives to make recommendations to customers with respect to leveraged and/or inverse ETFs.[13] The references in this section relate only to those 45 firms, unless otherwise stated.

[13] Of these 45 firms, nine (20%) have a business model in which their registered representatives are employees, 18 (40%) have a business model in which their registered representatives are independent contractors and 18 (40%) utilize both employee and independent contractor models.

Although permitting registered representatives to recommend leveraged and/or inverse ETFs, 11 firms (24%) maintain a list of approved leveraged and/or inverse ETFs while 31 firms (69%) do not.

While permitting recommendations of these products, 26 firms (58%) have set eligibility criteria that customers must meet before the firm will execute non-discretionary purchases of leveraged and/or inverse ETFs: 22 firms have risk tolerance considerations, 20 firms look at investor sophistication levels, 14 firms consider concentration limits, 13 firms have net-worth based restrictions, 13 firms require specific authorization, 10 firms set age requirements, and six firms require a specific margin requirement. Ten firms impose concentration limits (ranging from 5% – 40%) for customers' investments in leveraged and/or inverse ETFs. Only 12 firms restrict the holding periods.

Twenty-six firms (58%) provide their customers with educational materials or written disclosures specifically relating to the risks of purchasing leveraged and/or inverse ETFs, other than the ETF prospectus. Those materials are most commonly provided before the first transaction in these products (17 firms). However, some firms provide the materials prior to the settlement date (9 firms), at regular intervals (8 firms), when deemed appropriate (7 firms), or when the products are first discussed (4 firms).

The inquiry uncovered varied supervisory procedures at the 45 firms permitting recommendations of leveraged and/or inverse ETFs. Forty firms (89%) have written supervisory policies and procedures specifically addressing leveraged and/or inverse ETFs. The review of customer suitability for transactions in leveraged and/or inverse ETFs is specifically covered by 33 firms (73%), in their written supervisory policies and procedures.

Allowing the purchase of leveraged and/or inverse ETFs, 14 firms (31%) subject customer orders to a heightened suitability review prior to order execution. Exception reporting systems monitor the holding period of positions in leveraged and/or inverse ETFs at 21 firms (47%). Sixteen firms (36%) have exception reporting systems that generate an exception report for positions in leveraged and/or inverse ETFs that are held for longer than one trading session. A suitability review of positions in leveraged and/or inverse ETFs that are held for longer than one trading session is required by 15 of the firms.

Some of the 45 firms require approval and training regarding these products prior to making recommendations as follows: 14 firms (31%) require their registered representatives to be approved for transactions in leveraged and/or inverse ETFs prior to entering customer orders for those products, and 22 firms (49%) provide mandatory training specifically related to leveraged and/or inverse ETFs to their registered representatives. That mandatory training is provided during regular compliance training (e.g., annually) at 15 firms, but 9 firms provide the mandatory training prior to authorizing a registered representative to sell leveraged and/or inverse ETFs. Two firms provide the mandatory training as part of new hire training. Twenty-one firms (47%) do not provide mandatory training related to leveraged and/or inverse ETFs, but do offer ongoing training or guidance specifically relating to leveraged and/or inverse ETFs other than what is provided in the firm's written policies and procedures.

Where firms are permitting solicited recommendations of leveraged and/or inverse ETFs, the Investment Products and Services Project Group expected to find a corresponding level of increased supervision. However, as the above discussion demonstrates, representatives

were sometimes permitted to make recommendations in the absence of customer suitability criteria, mandatory training, and supervisory oversight.

Conclusion

Leveraged and/or inverse ETFs are complex investment products that require an understanding of how an investor's objectives will be met and the impact that market volatility, the ETF's use of leverage, and the customer's intended holding period will have on the performance of the ETF and the customer's investment portfolio. As explained in the NASAA and joint SEC/FINRA regulatory notices and alerts referred to in the Background Including Past Enforcement Matters section of this report, leveraged and/or inverse ETFs are generally not suitable for retail investors who plan to hold ETFs for more than one trading session, particularly in volatile markets.[14]

Vanguard indicated that as of January 22, 2019, it would no longer accept purchases in leveraged or inverse ETFs or exchange-traded notes (although customers could continue to hold, sell or transfer them). According to securities industry newsletters, Vanguard characterized these types of products as "very speculative and highly complex" and not fitting with the buy-and-hold strategy of most of its clients. This action by Vanguard may represent a trend of firms recognizing and deciding to avoid the risks associated with these products.

[14] Informed Investor Advisory: Exchange Traded Funds, supra note 9. Leveraged and Inverse ETFs: Specialized Products with Extra Risks for Buy-and-Hold Investors, supra note 10.

A majority of the firms responding to NASAA's inquiry that permit customers to hold leveraged and/or inverse ETFs in their accounts confirm that they have procedures for transactions involving leveraged and/or inverse ETFs but when asked more specific questions regarding those procedures, a lesser number of firms are addressing and monitoring customer suitability, including holding periods. This suggests that there is room for improvement in the development and implementation of leveraged and/or inverse ETF-specific supervisory procedures.

When registered representatives and their customers are permitted to purchase leveraged or inverse ETFs, the Investment Products and Services Project Group encourages firms to ensure they have sufficient supervisory procedures to guard against unsuitable recommendations and inappropriate holding periods. To customize policies and procedures for leveraged or inverse ETFs, broker-dealers should consider incorporating procedures to address the following:

- Establish customer eligibility (suitability) criteria for purchases of leveraged and/or inverse ETFs;
- Provide customers with educational materials regarding the risks of leveraged and/or inverse ETFs prior to the first sale;
- Require mandatory training and a formal approval process prior to permitting a representative to recommend a leveraged and/or inverse ETF;
- Review recommendations of leveraged and/or inverse ETFs based on a customer's investment objective, risk tolerance, age, and financial profile;

- Impose holding period time frames to prompt a supervisory review when leveraged and/or inverse ETFs are held longer than 1 day, 1 week, 1 month, etc.; and
- Create trade reports, exception reports and alerts designed to attract supervisory attention when leveraged and/or inverse ETFs are held for longer than one day and/or held by customers who do not meet specific suitability criteria.

Broker-dealers should carefully consider whether to permit purchases of leveraged and/or inverse ETFs in retail customer accounts. If permitting transactions in leveraged and/or inverse ETFs, a firm's supervisory procedures should be sufficiently tailored to address the risks associated with these non-traditional products.