

## **Middlegate Securities Inc.**

### **Regulation Best Interest Disclosure Document**

The SEC's Regulation Best Interest (REG BI) requires our firm to disclose information about the services we offer to our customers. Within this document, we set forth information that is important for you to understand including the conflicts of interest that occur when we provide services to you and the compensation that we receive. Please review the information and the documentation that is provided to you at account opening, as well as our Form CRS (Customer Relationship Summary)

Middlegate Securities Inc. is registered with the Securities and Exchange Commission and with the Financial Industry Regulatory Authority (FINRA). In this document we will focus on the brokerage services we offer you. Please refer to our Form CRS, for additional information related to the differences between the services offered at a broker-dealer and at an investment advisor. Form CRS also provides information related to conflicts of interest, compensation, and disciplinary history.

#### **About Our Broker-Dealer**

When you open a brokerage account with us you are able to buy and sell various types of securities and options in your account. National Financial Services is our clearing broker through which your trades are executed, and your investments are held. We only open non-discretionary accounts. You will make all of the decisions on your account. We follow your direct instructions and receive your approval when entering orders with our clearing firm on your behalf. For each transaction, we earn transaction-based compensation, also known as a sales commission, which is calculated as a percentage of the total value of the trade. Different types of compensation may be fee based. Your trade confirmation will indicate the capacity in which the firm has acted on your behalf.

#### **Cash and Margin Accounts**

We can open either a margin or a cash account on your behalf, which is dependent upon your request and your eligibility. Opening a margin account means that when you purchase a security you will pay for the transaction by borrowing a percentage of the purchase price from National Financial Services, our clearing firm. The amount of the purchase price, which is loaned to you from NFS, is based upon the securities in your account, which are collateralized. Not all securities are eligible to be collateralized. You will pay interest charges when you trade on margin. Margin accounts are subject to regulations and thresholds associated with the account, as well as specific costs. You will be asked to sign a separate agreement for a margin account and a determination will be made as to whether you are eligible for a margin account. When you open a margin account, along with the margin agreement, you will receive a copy of the Margin Disclosure Statement detailing valuable information.

## **Account Minimums**

There are no account minimums to open a brokerage account with the firm.

## **What Kinds of Accounts Do We Open?**

There are different types of accounts that you can open with our firm, such as individual, custodial, joint, partnerships, several different types of retirement accounts, trust accounts, estate accounts, corporate accounts, limited liability accounts and partnership accounts. More information about the types of accounts we offer is available in our account agreements. Please feel free to contact a representative of our firm to discuss which type of account would be best for you.

## **Recommendations and Account Monitoring**

We may make a recommendation to buy, sell or hold an investment and do so as a broker-dealer. When we do so, it must be in your best interest at the time that the recommendation is made, taking into account your investment profile. We will execute transactions for you either based upon your instructions or upon a recommendation that we make for you, and you approve. You are not obligated to act upon any recommendation we may make and may choose to make your own investment decisions. Investment decisions that you make on your own, are not subject to Regulation Best Interest. At the time that we make a recommendation, we will also consider available alternatives, based upon information you have provided such as your investment objective, risk tolerance, tax status, time horizon, etc.

At those times that we make an allocation recommendation, a securities recommendation, an investment strategy recommendation or recommend rolling over assets from a Qualified Retirement Plans to an IRA (Individual Retirement Account), we are doing so in the broker-dealer capacity. Effective February 1, 2022, with regard to retirement accounts, we are acting as a fiduciary under Title 1 of ERISA and or Section 4975 of the IRS code, in our capacity as a broker-dealer, when we make recommendations to you with regard to investment strategies and securities investments (including rollover accounts and the types of accounts). We do not act in a fiduciary capacity for brokerage accounts other than those considered to be ERISA accounts.

We do not provide ongoing monitoring of your account. This is your responsibility. Occasionally, and on a voluntary basis, we may review the holdings in your account to determine whether to make a certain recommendation. Regulation BI does not require us to monitor your accounts.

In addition, in connection with a recommendation we may make, we may provide you with educational information, performance reports, sales and marketing materials, and asset allocation data, which in providing them, is not considered to be a recommendation or a “call to action” to trade or hold the securities, including periodic brokerage account reviews that we may perform.

## Understanding Risk in Investments and Recommendations

Securities investments involve risk, which varies with products and strategies. There is a risk that your entire principal could be lost and there is no guarantee that your investment goals will be met or that any strategy that we recommend will perform as anticipated. It cannot be predicted or guaranteed. Values in an account will fluctuate due to the conditions of the stock market and other factors, such as currency, economic, political and geographic risk. The greater your risk tolerance, the greater the risk of loss in achieving your investment goals. As an investor, you are assuming the risks of investing in securities and other investments.

When you complete a new account application, you are required to provide the firm with information about your risk tolerance and investment goals. The following types of “risk tolerance” categories are enumerated within your new account agreement:

- Conservative
- Moderately Conservative
- Moderate
- Moderately Aggressive
- Aggressive
- Combination

The following investment objectives are listed within your new account agreement:

- Preservation of Capital
- Income
- Capital Appreciation
- Speculation
- Trading Profits
- Growth and Income
- Other

When analyzing the two categories of risk tolerance and investment objectives, there may be a mix of higher or lower risk investments. Investors who hold a balance of both higher risk and more conservative lower risk investments would be labeled a “Growth and Income” Investor. Investors that hold fewer high-risk investments would be labeled an “Income” investor. A “Growth” investor would be one where the majority of their portfolio is in higher-risk investments, most often equities. Speculation is for an investor where the largest percentages of their investments are in high-risk investments.

What we recommend to you will depend upon your investment objective and your risk tolerance. You must consider these factors for any recommendation we make to you. As your life circumstances, risk tolerance, goals, or objectives change, so would the recommendations that we would offer you. Please advise us of any these types of changes.

## **Clearing Arrangements**

Midlegate Securities, Inc. has a clearing agreement in place with National Financial Services LLC. We process securities transactions through National Financial Services LLC which also provides back-office functions, such as trade processing, and has custody of your assets. The exception would be as to certain “away” accounts that have a direct relationship with third-party custodians. Our firm and National Financial Services LLC have designated the responsibilities of each party with regard to the handling of your account, which is delivered to you upon account opening.

## **Our Compensation and Fees as a Broker-Dealer**

Opening a brokerage account may or may not be the best arrangement for you, depending upon your goals and objectives, how often you trade, your style of investing, the allocation of your assets among other factors. You should consider the overall expense of investing. A brokerage relationship can possibly be a cost-efficient way to invest, but it may not be suitable for everyone given the costs and commissions involved.

## **Transaction Based Commissions for Brokerage Accounts**

When you buy and sell stocks, bonds, mutual funds, -, options, exercise options, etc., you pay a transaction-based fee, commonly referred to as a “commission,” “sales charge” or “sales load,” or- a markup/markdown depending on the product. There are many factors which are taken into consideration for transaction-based fees, which include, but are not limited to the following:

1. Frequency of your trading activity
2. The product being bought or sold
3. The type of account and the brokerage model
4. The size of a transaction and/or the overall value of the account
5. Fee waivers and available discounts
6. Other incremental costs
7. Postage and handling
8. The difficulty/complexity of executing the transaction

Other broker-dealers have their own method of determining commissions which may be more or less than what Midlegate Securities Inc. charges.

## **How Do We Get Paid?**

Our firm receives both direct and indirect compensation in relation to your accounts. Direct compensation means that it is taken from your account. Indirect compensation means that the compensation is paid in other ways, rather than directly from the account, and can have an impact on the value of your investments. Enumerated below is the compensation that we receive for various investments which are available to you.

- **Mutual Funds:** Our firm offers a variety of mutual funds, which have different investment styles, costs, and class structure. We may receive direct or indirect compensation from your investments in mutual funds. You may find a description of the amount, payment frequency of the fees and expenses charged and paid by the fund in the fund's prospectus. Fees which are noted in the fund's prospectus are charged against the investment value of the fund, and will therefore, affect the "net asset value" of the fund.
- **Buying Mutual Funds Directly from a Sponsor:** There are many mutual funds that you can purchase directly from the Issuer, without using National Financial Services. The fees to purchase the mutual funds directly through the Sponsor and the fees associated with buying it through our clearing firm may vary. Please ask your financial professional which method of purchasing the mutual fund would be better for you.
- **Front-end Sales Charges for Mutual Funds:** When purchasing a mutual fund, you may pay a "front-end" sales charge or "load" which will be paid to the firm. These charges are deducted from your initial investment when purchasing certain share classes of mutual funds. This charge generally ranges up to 5.75%. Some purchases may qualify for a reduced "front-end" sales charge due to Letters of Intent ("LOI"), "Breakpoint" discounts based upon the amount of transactions you make and any "Rights of Accumulation" (where separate purchases you have made over a specified period of time are taken into consideration). It is possible that we may sell funds which offer Contingent Deferred Sales Charge ("CDSC") We may have a conflict of interest in recommending certain mutual funds over others due to the "loads" associated with that particular mutual fund.
- **12b-1-Shareholder Distribution Fees:** Fees differ among mutual funds, and sometimes between the share classes of the mutual fund. The firm receives 12-b-1 fees (commonly referred to as "trailers"), which are based upon the fund assets from the various mutual fund sponsors under a Service Agreement. These are used to cover distribution expenses and at times, the expenses related to shareholder service that is provided. We may receive higher 12-b1 fee payments from some fund families than others. This is a conflict of interest because we can recommend that you invest in mutual funds with higher 12-b1 payments than others.

### **Alternative Investments**

. Registered representatives of the Firm may recommend alternative investments. The Firm may be an investor in the same companies that we recommend to you or transact on your behalf, including Private Placements. A conflict of interest may exist by us doing so, which may materially affect your investment decision. Please consult your financial professional if you have an interest in alternative investments as well as the costs and fees associated with it.

### **Compensation Related to the Termination of Services**

The Firm does not receive direct or indirect compensation for the termination of services on accounts. These are pass-through fees which are determined and charged by National Financial Services, our Clearing Firm.

## **Conflicts of Interest**

We have material conflicts with your interests as a result of the way that we make money. Potential conflicts of interest or conflicts of interest exist in activities in which we engage where our interest may be adverse to your interest. If we recommend an account, investment strategy or a type of account, when we expect to earn bigger compensation over another type of account, security transaction or investment strategy, we may have a conflict of interest. It does not necessarily mean that those conflicts will cause harm to you, but the disclosure is important, because you should be aware of these conflicts as it may bias our recommendations to you. Regulation Best Interest obligates the firm to have policies and procedures in place to that are designed to address conflicts of interest associated with any recommendations to you.

Conflicts of interest typically occur from the payout of compensation and other financial relationships between the firm, third parties and our clearing firm. The firm offers a variety of products and investment services and receives varying forms of compensation from our customers, from other third parties and with some non-affiliated product providers. We are allowed to earn compensation for our services, including compensation paid over a period of time ("trail" fees). The payments vary according to type of security or investment product. The varying nature of sales charges and third-party payments create a conflict of interest the firm and its financial professionals who have incentive to recommend products for which we earn greater compensation, rather than other alternatives.

We strive to identify any conflicts of interest that may exist when providing recommendations to you, and to transact business in your best interest. The following information is being provided again to address our conflicts of interest, which may not be all inclusive. Please review other disclosure documents that we have provided you, including our Form CRS in which conflicts of interest are also discussed. You can find our Form CRS on our website: <http://www.middlegatesecurities.com/>

Below you will find information regarding conflicts of interest, some of which has already been covered above, and which are available on Form CRS.

### **Conflicts Related to Transaction-Based Compensation**

When you buy and sell investments in products that we offer, such as equities, bonds, ETF's (exchange traded funds), mutual funds, and alternative investments you will pay commissions or mark-ups/mark-downs

The more transactions that you engage in, the more compensation we will receive. It is, therefore, an incentive for us to buy and sell your investments rather than to recommend that you hold them. Another incentive for us is to recommend products which carry higher, rather than lower fees, or those that have no fees at all. You are not required to act upon any recommendation that we may make.

## **Conflicts Related to Third-Party Compensation**

We receive payments based upon the sales of new investment products from third parties which is an incentive for the firm to recommend purchases or sales of investments, rather than to recommend holding the investment. In some cases, payments are ongoing, which are based upon a percentage of the assets invested, which again would create an incentive to recommend that you purchase or hold an investment. We also receive compensation if you invest directly through a third-party. Payments vary based upon several factors, including other products and services we make available to you. An incentive exists for us to recommend investment products which generate more compensation for us. Generally, the expense is embedded into the investment product and services even when it is not directly taken from the cost of the product you are paying for and not paid by the Product Sponsor. The types of third-party compensation would include:

- **Margin Interest:** Middlegate Securities Inc may receive part of the margin interest that you pay to National Financial Services LLC, our clearing firm. This gives us incentive to recommend that you open a margin account since the interest generated in this type of account would benefit our firm.
- **“Trails” “Service Fees” or “12-b-1 fees”:** Our financial professionals may share in ongoing compensation we are paid from Product Sponsors. These payments vary depending on the type of investment product or security. This type of compensation (12-b-1 fees related to mutual funds, trail fees or service fees) is generally paid from the assets of the investment under a distribution or servicing agreement and is calculated as an annual percentage of your invested assets. A conflict of interest is created because our firm and its financial professionals have incentive to recommend products in which we earn more compensation from these products than from alternative products.
- **Share Classes:** The amount of fees paid to our firm from Product Sponsors and share classes vary and each has its own unique expense structure. Some may offer lower costs to you than others. It is an incentive for us to recommend mutual funds and share classes which would pay us higher fees.

## **How Our Financial Professionals Are Paid**

Our registered representatives are compensated based upon a percentage of the revenue they generate from sales of investment products to customers. This compensation will vary based upon the product or services provided. Compensation may be paid upon a transaction being executed or may be paid ongoing fees or “trail” fees on some products. Our registered representatives have the incentive to recommend products which have higher fees, as well as those that pay ongoing “trail” fees. The more that you buy and sell in your account, the more that the payout will be to our registered representatives and therefore, they have the incentive to provide recommendations that may result in you buying and selling more of the products and services recommended. Registered representatives also have the incentive to recommend that you rollover assets from a Qualified Retirement Plan to an IRA (Individual Retirement Account) because we will receive compensation for doing so. In addition, our financial professionals have a conflict of interest because when making recommendations to you, they

gather more assets under management, which then increases your brokerage activity, resulting in greater payments to them.

Please feel free to contact us with any questions that you may have regarding the information provided in this disclosure document or in Form CRS.