

## Policies and Procedures Pertaining to the Operation of Bid-Wanted and Offerings for Municipal Securities

### 1. Bid Wanted and Off the Wire Procedures

TP ICAP Global Markets USA LLC (the “Firm”) shall make a reasonable effort to obtain a price for the dealer that is fair and reasonable in relation to prevailing market conditions. The Firm will employ the same care and diligence in doing so as if the transaction were being done for its own account.

#### a. Bid Wanted Transactions

In the Bid Wanted Process, a seller places their bond or bonds out for auction via the internet. (Items for the bid, are received by the Firm either through the internet, email, phone or fax.) Buyers who have been approved as users who are allowed to view the items for bid and if they so desire, they can place a bid on the item either by phone, email, fax or directly on the website.

Pursuant to MSRB Rule G-43(a)(1), the Firm acts as a “broker’s broker” with respect to the execution of municipal securities transactions on behalf of other dealers. As such, the Firm shall make reasonable effort to obtain prices for dealers that are fair and reasonable in relation to prevailing market conditions and will not take any actions to that works against a dealer’s interest to receive advantageous pricing. Unless specified in writing, the Firm will always presume that it represents the seller’s interests with respect to its Bid Wanted business.

Each bond is placed on auction for a designated period of time after which point the highest bid(s) are communicated to the seller anonymously. The decision to execute the trade is deferred to the seller. Should the seller decide to transact the trade the top bidder will be notified. In the case of matching high bids, the bidder who submitted their bid first in time will be deemed the purchaser of the respective securities.

The Firm’s designated municipal securities principal will be responsible to review the bids available through the SUN 2.0 system that are presented to the seller to ensure that the high bid(s) have been duly communicated. This review will occur through the review of the “Deleted Bid Blotter” explained in detail below in the section titled “**Bid Wanted Trading Supervision.**” Proof of this review will be recorded through email receipt of the Deleted Bid Blotter by the designated municipal securities principal.

The Firm will make a reasonable effort to disseminate a bid-wanted widely (including, but not limited to, the underwriter of the issue and prior known bidders on the issue) to obtain exposure to multiple dealers with possible interest in the block of securities, although no fixed number of bids is required.

If securities are of limited interest (*e.g.*, small issues with credit quality issues and/or features generally unknown in the market), the Firm will make a reasonable effort to reach

dealers with specific knowledge of the issue or known interest in securities of the type being offered.

The Firm holds a deadline for the acceptance of Bid Wanted bids, after which the Firm cannot accept bids or changes to bids. That deadline may be either (A) a precise (or “sharp”) deadline or (B) an “around time” deadline that ends upon the earliest of: (1) the time the seller directs the broker’s broker to sell the securities to the current high bidder, (2) the time the seller informs the broker’s broker that the bonds will not be sold in that bid-wanted, or (3) the end of the trading day as publicly posted by the broker’s broker prior to the bid-wanted.

Should the seller change a component of an item during the auction process the auction is then Subject and therefore withdrawn or designated as No Trade, thereby ending the auction.

Each client of the desk has a corresponding fee schedule that is available upon request. The Firm cannot impose any upward or downward deviations to the minimum and maximum fees set forth in this pre-set fee schedule without a client’s agreement.

**b. Cover Bids**

The Firm will make all bids available to the market upon request, and will provide cover bids to the winning bidder at the time of the auctions end.

**c. Will Trade**

If the seller directs the Firm to sell an item, the Firm must do so immediately. If the seller instructs the Firm that an item *will trade* upon completion of the bid gathering process, the Firm will employ the same care and diligence as if the transaction were being done for its own account and to not take any action that would work against the seller’s interest to receive advantageous pricing. The Firm will continue to gather bids on the item until the process has been completed. At that time, the Firm’s brokering staff will go back to the seller to reflect the high bid in order to be directed to sell the bonds to the high bidder.

**d. Predetermined Parameters**

The Firm utilizes the MuniBrokers Daily Pricing Parameters of a municipal security because it is regularly updated and is used market wide. If the high bid received in a bid-wanted is above or below the predetermined parameters of the Firm and the Firm believes that the bid may have been submitted in error, the Firm may contact the bidder prior to the deadline for bids to determine whether its bid was submitted in error, without having to obtain the consent of the seller. If the high bid is within the predetermined parameters but the Firm believes that the bid may have been submitted in error, the Firm broker must receive the oral or written permission of the seller before it may contact the bidder to determine whether its bid was submitted in error.

If the high bid received in a bid-wanted is below the predetermined parameters (“PDP”) of the Firm, the Firm’s broker must disclose that fact to the seller, in which case the Firm may still effect the trade, if the seller acknowledges such disclosure either orally or in writing. Functionally, the broker will be required to electronically “Attest” that this disclosure has been duly provided to the seller by checking the requisite attestation box located on the SUN 2.0 proprietary front office system. As a backstop, the system will not permit the broker to pass trade details to the seller unless the attestation is electronically provided. Any broker found to be falsely making the requisite attestation may be subject to disciplinary action up to and including termination.

The designated supervisor will review the report showing bids outside the PDP and the report showing Deleted Bids on a monthly basis. Those reports will be sent via email and will be memorialized by the designated supervisor and saved to a share drive folder on the Firm’s network.

**e. Books and Records**

The Firm will review its internal parameters on a monthly basis by comparing the MuniBrokers Daily Pricing range to the Bloomberg BVAL for that security. The Firm will test at least 10 bid wanted items at random selection each month. The analysis and the testing results will be documented and maintained by the IT Department.

With respect to bid wanted transactions the Firm acknowledges that it represents the seller for this form of trading. In the event that the Firm ever represents both a bidder and a seller in a bid wanted transaction, the Firm will obtain and maintain a copy of a written agreement signed by all parties acknowledging the arrangement.

The Firm will maintain records of:

- all bids to purchase municipal securities, together with the time of receipt;
- all offers to sell municipal securities, together with the time the broker’s broker first receives the offering and the time the offering is updated for display or distribution;
- the time that the high bid is provided to the seller; the time that the seller notifies the broker’s broker that it will sell the securities at the high bid; and the time of execution of the trade;
- the date and time of the communication; whether the bid deviated from the predetermined parameters and, if so, the amount of the deviation; the full name of the person contacted at the bidder; the full name of the person contacted at the seller, if applicable; the direction provided by the bidder to the broker’s broker following the communication; the direction provided by the seller to the broker’s broker following the communication, if applicable; and the full name of the person at the bidder, or seller if applicable, who provided that direction for each communication with a seller or bidder pursuant to Rule G-43(b)(iv);

- the date and time of the communication; the amount by which the bid deviated from the predetermined parameters; the full name of the person contacted at the seller; the direction provided by the seller to the broker's broker following the communication; and the full name of the person at the seller who provided that direction for each communication with a seller pursuant to Rule G-43(b)(v);
- the full name of the person at the bidder that authorized the change and the full name of the person at the broker's broker at whose direction the change was made for all changed bids; and the reason why the bid was changed;
- the full name of the person at the seller that authorized the change and the full name of the person at the broker's broker at whose direction the change was made) for all changes in offering prices,
- the full name of the person at the bidder that authorized the deletion of a bid and the full name of the person at the broker's broker at whose direction the bid was deleted; and the reason why the bid was deleted.

#### **f. Bid Wanted Trading Supervision**

##### *Changed or Deleted Bids and Broker Attestations*

All municipal securities trading data is stored in the SUN2.0 proprietary front office trading system. As it relates to bid wanted transactions; any modification to a bid after initial entry will cause the original bid to enter a "Deleted" status. Only a Firm broker has the ability to delete a bid wanted municipal security bid. In the event that a bid is deleted, the Firm broker entering the bid deletion is required to identify the reason for the bid deletion and the name of the contra party trader that instructed the deletion and, if required, must attest through the SUN 2.0 System that disclosure was made to the seller in compliance with MSRB rule G-43.

The Firm will maintain a "Deleted Bid" log that will be reviewed, at least, on a monthly basis by the Firm's municipal securities principal or his/her designee. The municipal securities principal, or his/her designee, will review the deleted bid log to identify any patterns or evidence of wrongdoing either by internal employees or trading counterparties. This review will include without limitation, evidence of giving preferential treatment; providing "Last Looks"; bid coaching; "Pennying Up"; or any activity indicative of a counterparty receiving preferential treatment in violation of the company's policies or applicable regulation.

The municipal securities principal, or his/her designee, will review the explanation given by the Firm municipal securities broker for the changes/deletions of the bids. The SUN 2.0 System has a host of reasons preprogrammed into the system that the broker can choose to reflect the reason for the bid deletion. If none of the packaged answers are correct, the broker has the ability to enter their own statement. The entered deletion reasons are reviewed by the municipal securities principal, or his/her designee, for any patterns to identify potential wrongdoing on behalf of the customer or the Firm broker.

Finally, the municipal securities principal, or his/her designee, will review whether or not the broker properly made all required disclosures to the parties. These disclosures are required where the high bid was a given by non-FINRA member or to confirm the seller was contacted prior to a high bid deletion; etc.) The broker must electronically "Attest" through the SUN 2.0 System any time a disclosure would be required. As a safety feature, the system will not allow the broker to move forward with the entry of trade details unless they attest that the requisite disclosures have been made. Confirmations of these disclosures is captured through the SUN 2.0 system. Any broker found to be falsifying the attestations may be subject to disciplinary actions including without limitation termination.

Upon completion of the review, the municipal securities principal, or his/her designee, verify completion of the review by memorializing the log and saving it to a share drive folder on the Firm's network. Then log will be maintained by the municipal securities principal, or his/her designee in the Firm's email retention system with the Firm's Books and Records retention policy.

#### Electronic Communications

On at least a weekly basis the municipal securities principal, or his/her designee will perform a review of the electronic communications relevant to the Bid Wanted Business. The review will include communications (Corporate email, Bloomberg Mail, and / or Bloomberg Instant messages) that are flagged either by random sample or lexicon word matching or a combination of both. The reviews will function to identify any potential wrongdoing of the Firm's staff or its bid wanted counterparties. The reviews will include, without limitation, focus on whether the Firm engaged in the prohibited activity of encouraging bids that do not represent the fair market value of municipal securities that are the subject of a bid-wanted or offering; of failing to inform the seller of the highest bid in a bid-wanted or offering; with providing parties with information about bid prices, until the bid-wanted has been completed; accepting a new bid from a bidder in the same bid-wanted after the Firm has selectively informed that bidder whether its bid is the high bid ("being used" / "Commented") in the bid-wanted; and any other activity that is indicative of prohibited or unethical conduct.

#### **g. Bid Wanted Disclosures**

All required disclosures governing the Firm's bid wanted business are located on the tpicap.com website. Updates to the website will be performed on an as needed basis. On at least an annual basis, the municipal securities principal, or his/her designee will review the contents of the disclosures. Any required update to the website will be sent to the IT Department via electronic communication. These communications will be maintained in the Firm's books and records as evidence of the completion of the review.

## **h. Prohibitions**

Pursuant to MSRB rule G43(c)(i)(H – O), Firm employees are expressly prohibited from:

- Maintaining municipal securities in any proprietary or other accounts, other than for clearance and settlement purposes;
- Any self-dealing by the broker's broker;
- Encouraging bids that do not represent the fair market value of municipal securities that are the subject of a bid-wanted or offering;
- Giving preferential information to bidders in bid-wanted, including but not limited to, "last looks," directions to a specific bidder that it should "review" its bid or that its bid is "sticking out;"
- Changing a bid price or offer price without the bidder's or seller's respective permission;
- Failing to inform the seller of the highest bid in a bid-wanted or offering;
- Accepting a changed bid or a new bid from a bidder in the same bid-wanted after the broker's broker has selectively informed that bidder whether its bid is the high bid ("being used") in the bid-wanted; and
- Providing any person other than the seller (which may receive all bid prices) and the winning bidder (which may only receive notice that its bid is the winning bid) with information about bid prices, until the bid-wanted has been completed, unless the broker's broker makes such information available to all market participants on an equal basis at no cost, together with disclosure that any bids may not represent the fair market value of the securities, and discloses publicly that it will make such information public.
- Changing or deleting any bid without providing an accurate reason in the "Comment Field" which will open automatically upon the change or deletion of any bid.

Any Firm Municipal broker who has been found to engage in any of these "Prohibited Activities" may be subject to disciplinary action, including termination.

## **i. Customer Notification**

On an annual basis, the Firm will provide counterparties who employ the Firm for municipal Bid Wanted services with a copy of its municipal bid wanted practices and procedures.

**j. Off the Wire Transactions**

In the Off the Wire process, Firm brokers communicate by voice, fax or email with buyers and sellers of bonds in order to facilitate execution of trades. Unlike the bid wanted process, off the wire transactions are not executed in auction format.

**k. Crossing Municipal Bonds**

The Firm will permit a counterparty to cross municipal Securities (Buy or Sell municipal securities to or from itself) under certain conditions. Any counterparty that wishes to cross municipal securities must do so through a bid wanted auction. Counterparties are not permitted to cross municipal securities in an “Off the Wire” environment. Prior to permitting a counterparty to engage in crossing any municipal securities, the counterparty’s investment strategy must be requested by an employee of the Firm.

A crossing counterparty will not be permitted to bid on an item or change their bid on any item if: 1) The item had been previously “Marked” (the current bids for that item have been viewed by the seller through any medium. These mediums include without limitation, the internet (Bid Source, Chappy.Com or FABCOM ) or through a list provided by any Firm employee; or 2) The seller has been provided with any bid information for that particular item prior to placing any bid itself.

The transactions of any counterparty that is engaging in the practice of crossing bonds will be reviewed. An exception report will be generated on at least a weekly basis to identify any bid wanted transactions where a bid was deleted or changed. This report will be provided to the Municipal Securities floor managers and the appropriate SMD for review. The SMD will initial the report upon review. These reports will be duly maintained by the Firm pursuant to SEC rules 17a-3 and 17a-4.