

**TRADITION SECURITIES AND DERIVATIVES LLC (“TSD”)  
BROKER’S BROKER PROCEDURES (MSRB RULE G-43)**

**I. General Obligations of TSD as a Broker’s Broker**

TSD’s obligations when acting as a Broker’s Broker include the following:

- Making a reasonable effort (employing the same care and diligence in doing so as if the transaction were being done for TSD’s own account) to obtain a price for the dealer that is fair and reasonable in relation to prevailing market conditions.
- Not taking any action that works against that dealer’s interest to receive advantageous pricing.
- Acting presumably for or on behalf of the seller in a bid-wanted for municipal securities, unless both the seller and bidders agree otherwise in writing in advance of the bid-wanted.

**II. Designated Supervising Principal**

Our Municipal Securities Principal must ensure our full compliance with MSRB Rule G-43. To that end, our Municipal Securities Principal is responsible for ongoing assurance that all individuals under their immediate supervision are aware of, and act in compliance with, all rules and regulations governing TSD’s obligations and restrictions as a Broker’s Broker.

On a monthly basis, our Municipal Securities Principal, as well as any other desk heads who supervise members of our municipal securities desk, will verify in writing with their signatures that the Firm is in compliance with MSRB Rule G-43. Compliance will maintain documentation of this verification in its files.

If it is determined that the Firm has failed to comply with MSRB Rule G-43, the Municipal Securities Principal will immediately bring the matter to the attention of our CCO and Senior Management so that remedial actions can be taken. Compliance will maintain documentation of the issues that raised concern and all follow-up actions in the file.

**\*\*Note\*\*** The Monthly MSRB Rule G-43 Attestation form was amended in 2015 to better document our supervisory procedures. The Municipal Securities Principal must now indicate if the Firm maintains any documentary evidence of any of the items listed on the first page of the G-43 Attestation. Compliance will maintain appropriate documentary evidence of all such items listed on the G-43 attestation, as indicated by the Municipal Securities Principal, for the relevant time period.

**III. Supervisory Review Procedures and Documentation**

**1. *Manner of Conducting Bid-Wanted***

TSD conducts all bid-wanted in the following manner:

- TSD makes a reasonable effort to widely disseminate a bid-wanted (including, but not limited to, the underwriter of the issue and prior known bidders on the issue to multiple dealers with possible interest in the block of securities. No fixed number of bids is required but TSD observes the following policies:

- i. For securities with wide interest, TSD uses the MuniBrokers system (“MuniBrokers”) for the purpose of disseminating bid-wanted.
- ii. For securities with limited interest (*e.g.*, small issues with credit quality issues and/or features generally unknown in the market), TSD makes a reasonable effort to reach dealers of which TSD is aware have either a specific knowledge of the issue or a known interest in securities of the type being offered. For such securities, TSD may use MuniBrokers services and/or seek to reach appropriate dealers by its own efforts through Bloomberg, email, and/or by telephone calls.
- iii. TSD does not limit the audience for a bid-wanted (such as through the use of screening or filtering) unless explicitly directed to do so by the seller.

Note: MuniBrokers’ Alert system can be configured by users to deliver bid-wanted items and offerings in real-time based on pre-selected criteria established by each user. There are system-generated alerts that are sent to previous bidders on each particular security that is the subject of a bid-wanted. In addition, potential bidders utilizing MuniBrokers can access a bid-wanted search screen where they can search by various criteria, including issue size, rating, call protection, sinking funds, security type, and others to identify securities that may be of interest to them. Along with systematic methods and relying on potential bidders to self-identify securities of interest, TSD brokers add an important layer to the bid gathering process. Indeed, TSD brokers are in daily contact with multiple potential bidders on securities of all types. Through their personal knowledge of indications of interest expressed through their professional contacts, our brokers often identify potential bidders that would have otherwise been missed.

- TSD, along with its trading system administrator MuniBrokers, has established predetermined parameters solely for compliance with Rule G-43. The parameters are a) reasonably designed to identify most bids that may not represent the fair market value of municipal securities to which they are applied; b) systematically determined by TSD upon entry of a bid-wanted item in MuniBrokers and in advance of the acceptance of bids on the item; and c) systematically applied to all bids on that item. Such parameters are formulaic and based upon objective pricing criteria, including but not limited to a given CUSIP’s bidding history, MRSB trade data, independent evaluations, and the specific description of the bond.
- The parameters are prominently disclosed on a website (provided by MuniBrokers) in advance of the bid-wanted in which they are used and are periodically tested to verify that they identify most bids that do not represent the fair market value of the municipal securities in bid-wanted to which they are applied. The parameters are displayed on the detail of each bid-wanted item and are permanently stored in the record of that item. Once a bid has been received on a bid-wanted, the parameters for that bid-wanted cannot be altered.
- In addition, MuniBrokers provides third-party evaluations, MSR trade data, spot and interpolated spreads to benchmark yield curves, and the US Treasury (including straight line interpolated Treasury curve, and historical market data. MuniBrokers also provides data that includes prices of bids and offerings on securities that may not have traded and therefore, would not be available from any other source. The combination of data provided is a unique source of information to assist all MuniBrokers users to determine what they believe are fair and reasonable prices for any security displayed in the system.
- Each bid-wanted has a deadline for the acceptance of bids, after which TSD does not accept any bids or any changes to bids. Such deadline is noted in the order record and is either a

“sharp” deadline or an “around time” deadline. For “around time” deadlines, TSD does not accept bids or changes to bids after the earlier of:

- i.* The time the seller directs TSD to sell the securities to the current high bidder;
- ii.* The time the seller informs TSD that the bonds will not be sold in the bid-wanted; or
- iii.* The end of the trading day as publicly posed by TSD prior to the bid-wanted (which will be the same time identified by MuniBrokers).

## **2. *Providing Cover Bids***

TSD may provide the cover bid to the winning bidder at the time of execution if TSD contemporaneously makes the bidding information available to the market.

## **3. *Providing Bid Information on an Item that Becomes “Subject”***

Should the seller change a component of a bid-wanted item during the bid-wanted process, the bid-wanted is considered “Subject” and therefore withdrawn or designated “No Trade.” The bid-wanted is then considered “completed” in MSRB terms and all bidding information will be made AVAILABLE by TSD. If the seller directs TSD to re-initiate the bid-wanted with the updated changes, a new bid-wanted will be opened using a new unique item number.

## **4. *Providing Bid Information on an Item That Is Past Its Firm Time***

On a Sharp/Firm or Around/Firm bid-wanted item a bidder is asked to bid the item by the stated time and hold its level until the Firm time has elapsed. There are a multitude of reasons why sellers occasionally cannot complete their internal processes by the Firm time. When a seller contacts TSD to inform TSD that the seller may or will miss the Firm time of its bid-wanted, the high bidder is then contacted by TSD who relays the situation and inquires whether or not the bidder will stand by their bid past the Firm time.

While the passing of the Firm time on a bid-wanted necessarily moves all bids into the “Subject” column, it does not complete the process; the process is only complete when TSD receives direction from the seller as to a closed or completed status or the high bidder has indicated that it will not stand by its bid. As an active bid-wanted, bid pad information is not made available to the market. In addition, bidding information should not be made available to the market unless or until the high bidder indicates it will not stand by its bid and the seller has closed the item.

## **5. *“For Sale” or “Will Trade” Items***

If the seller directs TSD to sell a bid-wanted item, (“For Sale” designation), G-43 stipulates that TSD is to promptly sell the item to the current high bid in the bid pad. If a seller informs TSD that a bid wanted item “Will Trade” upon the completion of the bidding process, TSD has duties under G-43 to employ the same care and diligence as if the transaction were being done for its own account. Further, TSD is not to take any action that would work against the seller’s interest to receive advantageous pricing. TSD is, therefore, required to complete the process as requested by the seller and gather bids on the item, until such time that the seller directs TSD to sell the bonds.

## 6. *Communications During Bid-Wanted*

TSD observes the following restrictions on communications during a bid-wanted:

- When the high bid received in a bid-wanted is above or below the predetermined parameters and TSD believes that the bid may have been submitted in error, TSD may contact the bidder prior to the deadline for bids without the consent of the seller to determine whether its bid was submitted in error.
- When the high bid is within the predetermined parameters but TSD believes that the bid may have been submitted in error, TSD may not contact the bidder to determine whether its bid was submitted in error without first receiving oral or written permission from the seller to do so. TSD obtains such seller's permission on a transaction-to-transaction basis and documents both TSD's request and the seller's response thereto in writing.
  - If this situation should occur, emails evidencing the communications will be forwarded to Compliance for retention. Additionally, Compliance will maintain certain of the information in a log.
- MuniBrokers allows for correction of typographical or data entry errors. As an example, transposed numbers or bids entered on wrong items. These errors will also be documented in the record of the relevant bid and disclosed to the seller when affecting the high or cover bids.
- When the high bid received in a bid-wanted is below the predetermined parameters, TSD must disclose that fact to the seller and observes the following procedures:
  1. TSD documents, in writing, the notice provided to the seller, including the time that such notice was provided, the name of the person at TSD who provided such notice, the name of the person who received such notice on the seller's behalf, and the seller's acknowledgment that it has, in fact, received such notice.
  2. TSD executes the transaction at that price only if directed to do so by the seller after the seller has acknowledged that the seller has received notice that the high bid is below the predetermined parameters.
  3. TSD documents in writing any such direction to sell at a price that is below the predetermined parameters, including the name of the person at the seller that directs TSD to sell at that price, the time when the direction was received, and by whom the direction was received.

If this situation should occur, emails evidencing the communications will be forwarded to Compliance for retention. Additionally, Compliance will maintain certain of the information in a log. Once the bid is marked "put up" by a TSD broker, this information will be available on MuniBrokers for a seller and may also be disclosed verbally by a broker. This will be documented in the record of the relevant bid.

- If the winning high bidder's bid or cover bid in a bid-wanted has been changed, TSD discloses such change to the seller prior to execution and provide the seller with the original and changed bids. Once the bid is marked "put up" by a TSD broker, this information will be available on MuniBrokers for a seller and may also be disclosed verbally by a broker. This will be documented in the record of the relevant bid.
- TSD informs the seller of the highest bid in a bid-wanted or offering.
  - All notices will be provided by email to ensure documentary evidence. A copy of the emails will be maintained by Compliance.

## 7. **Disclosures**

TSD discloses information to bidders and sellers regarding its Broker's Broker activities, including the following:

- The nature of its undertaking for the sellers and bidders in bid-wanted and offerings;
- The manner in which TSD conducts bid-wanted and offerings;
- The commission or other economically similar compensation schedules for transactions, which reflect at a minimum the maximum charge that TSD could impose on a given transaction; and
- A description of the manner in which TSD satisfies its obligation to obtain a fair and reasonable price in the case of offerings and bid-wanted not conducted in accordance with Section II ("Manner of Conducting Bid-Wanted") above.

Such disclosures are prominently on TSD's MuniBrokers webpage, which also discloses TSD's end of trading day time, the predetermined parameters in advance of the bid-wanted in which they are used; and TSD's broker's broker policies and procedures.

In addition, TSD observes the following transaction specific disclosures:

- TSD brokers with Customers (as defined in Rule D-9) and Affiliates (as defined in Rule G-11(a)(x)) and allows them to place bids on items. TSD discloses such fact to both sellers and bidders in writing and further will disclose to the seller if the high bid in a bid-wanted or offering is from a Customer or an Affiliate (such disclosure does not, however, identify the name of the Customer or Affiliate).

## 8. **Compensation**

With respect to bid-wanted and offerings of municipal bonds, TSD is compensated on the basis of commissions or other economically similar basis.

## 9. **Prohibitions**

As a Broker's Broker, TSD is prohibited from engaging in the following activities:

- Self-dealing;
- Maintaining municipal securities in any proprietary or other accounts, other than for clearance and settlement purposes;
- Encouraging bids that do not represent the fair market value of municipal securities which are the subject of a bid-wanted or offering;
  - The brokers' broker desk comprises approximately 10 persons. The business is overseen by the municipal principal and two desk managers. The close proximity of the management team and brokers greatly aids oversight and the ability of the supervisors to uncover or discourage inappropriate practices. Any such activities would be immediately addressed and a record of the incident provided to Compliance. The supervisor will notify Compliance which will maintain a log of all such incidents.
- 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";
  - The supervisor will notify Compliance which will maintain a log of all such incidents.
- Changing a bid price or offer price without the bidder's or seller's respective permission;

- Price changes can currently result from either verbal or email communications. To ensure documentary evidence of permission, the price change will be documented with a follow up email to the impacted bidder or seller. A copy of the emails will be maintained by Compliance.
- 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 TSD has selectively informed that bidder whether its bid is the high bid (“being used”) in the bid-wanted; and
  - The Firm will document notification to bidder that its bid is the high bid via email including a statement that the Firm cannot accept a changed bid or new bid from the bidder. A copy of the emails will be maintained by Compliance.
- Subject to the provisions of bid-wanted requirements (if applicable) and the prohibition discussed in above bullet, 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 prior to the completion of the bid wanted, unless TSD makes such info 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 info public.

The supervisor will monitor desk activity and the Firm subjects all electronic communications to random reviews. Should an incident be discovered, Compliance will be notified and appropriate action taken to halt the behavior. Notice will be provided to all of the Firm’s municipal market participants informing them of the information that had been selectively provided.