

## **UNDERSTANDING BGC BROKERING SERVICES**

The below is an explanation of certain BGC's<sup>1</sup> practices while providing broking services in different jurisdictions around the world in which it operates. It is not intended to be an exhaustive list of all broking practices and is illustrative only. BGC believes that it is a prudent practice when our clients understand the key aspects of how BGC provides its broking services. While BGC encourages both its brokers and its clients to maintain a dialogue regarding the specific aspects of your business, we also encourage you to familiarize yourself with BGC's normal course practices in broking transactions with its customers.

### **Scope of Brokering Services**

The practices described in this document address BGC's normal course broking services in its wholly owned businesses in the United States and globally, with regard to the services of voice and/or electronic brokerage of securities, futures, commodities, currencies, and non-security derivatives.

The majority of BGC's brokerage activities are conducted in regulated entities and/or the activity is the subject of a regulatory scheme. Thus, there are many laws, regulations and numerous exchange rules ("Regulations or Rules"). A number of BGC's activities are not currently regulated. These broking practices are designed to be consistent with Regulatory Requirements where applicable, and to address issues that are not the subject of Regulations or Rules.

Given the span of BGC's brokerage activities, the described practices only reflect a general methodology for conducting the business that as set out herein may vary for certain activities and/or products. BGC's clients may request information or otherwise familiarize themselves with the specific practices associated with particular activities and products in which they are interested. In addition, in instances where BGC and a client have contractually agreed to specific terms and/or understandings ("Contractual Terms"), the described practices do not modify or supersede such Contractual Terms, and in the event of and to the extent of any conflict, such Contractual Terms shall govern.

### **The Role of BGC in Providing Brokering Services**

BGC offers brokerage services to its clients whereby BGC acts as an intermediary or arranger of transactions. In this capacity, BGC seeks to facilitate an agreement between and among principals on mutually acceptable terms upon which to consummate a transaction. BGC's client base may vary by product type, but across its businesses, BGC provides broking service to broker-dealers,

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<sup>1</sup> BGC refers to any BGC affiliate offering brokering services.

banks, and a range of institutional investors and other sophisticated institutional wholesale market participants. BGC's mission is to add value to its clients by identifying, improving and/or enhancing: (i) price discovery and transparency; (ii) liquidity; and (iii) information flow.

BGC does not serve as a fiduciary to its clients. In addition, in the absence of Regulations or Rules, when a client utilizes BGC to provide broking services, including in situations when the client is the only party to the transaction that pays BGC for services, BGC does not act exclusively for the benefit of that client. In certain cases where BGC is sourcing liquidity and facilitating transactions, BGC will unavoidably be working with multiple clients whose interests might be in conflict with regard to the outcome of a particular transaction, BGC accommodates the interests of multiple participants involved in a particular transaction, as well as to act in a manner that furthers the interests of all participants in conducting an ongoing business in the relevant marketplace, but may not always meet the precise criteria of any particular participant.

As an institutional or broker dealer customer, BGC has limited obligations as it pertains to suitability. Unless otherwise explicitly agreed, you are held to not have relied on BGC to determine the appropriateness of the product, its features and risk to your portfolio. Additionally, you should independently verify all aspects of the product you buy – for example, price, quantity, yield, rating and call and put right. For stock sales, you should also be aware of dividend and ex-dates and should be independently aware of correct price adjustments due to these events.

#### **Capacities in which BGC Acts:**

BGC provides brokerage services in three capacities, depending upon the nature of the particular product – the titles for each type of capacity are descriptive and customers may use different descriptions:

**“Exchange Give Up” Capacity.** For certain products, BGC acts in an agency capacity whereby it facilitates the trading activity of its client on an exchange. Upon receiving the relevant price information from BGC, the client will instruct BGC to place an order on the appropriate exchange, either in its own name (if a member of the exchange) or through a third party. Once the execution has occurred, the executed position is then “given-up” to the client through the clearing services at the exchange clearing house. Commonly, the arrangement will be governed by an industry standard “give-up” agreement. A derivation of this business model is where the OTC trades are crossed (where prior negotiation of the price between two parties can occur) on the exchange to provide the clients with a settlement process through a central counterparty. At the end of each month, BGC will invoice the client for the trading activity during that month.

**“Matched Principal” Capacity** For certain products, BGC acts in the capacity of a “matched or riskless principal”; it acts as an intermediary by serving as the counterparty for identified buyers and sellers in matching, in whole or in part, reciprocal back-to-back trades. Settlement is made between each client based on the market convention with the brokerage fee, being either incorporated in the all-in price passed to the client or through a monthly invoice.

**"Principal Capacity"** For certain products the firm may upon occasion commit capital to facilitate a customer's order prior to accessing the liquidity in the marketplace. Such activity is intended, among other things, to assist these parties in managing their proprietary positions, and to facilitate transactions, add liquidity, and attract additional order flow to our marketplaces.

**“Name Passing” Capacity** For certain products, BGC takes on an arranging role in a transaction between two or more counterparties. A broker, via price dissemination, distributes quotations to other market participants presenting both price and volume. For voice brokered products, the presented prices and volumes: 1) are dependent upon market convention; 2) either firm or

indicative levels of interest; and 3) must be confirmed prior to any transaction being deemed completed. For electronically executed products the prices and volumes are typically deemed firm and are traded without further confirmation. Generally, when all terms, other than credit approval, are met, the counterparties' names are disclosed and the broker "steps away" from the transaction. Bilateral agreements are then entered into between the counterparties and the broker will invoice the brokerage fee.

### **Circumstances Under Which BGC May Act as Principal and its Handling of Any Resulting Positions**

BGC does not generally engage in proprietary trading as it does not systematically initiate or carry positions for its own account solely for the purpose of putting its capital at risk or to earn a profit based on a view of the market.

However, BGC may and does from time to time, acquire unmatched positions as principal in the following scenarios:

- On occasion, as a result of a bona fide error, BGC may in "Matched Principal" or exchange based "Name give up" marketplaces acquire a position in resolution of an error or out trade.
- Facilitation and execution of an order on behalf of a client prior to a position's novation, give-up or settlement by the relevant client and/or for the purpose of intermediating a client's access to any applicable clearing and settlement system.
- The firm may occasionally commit capital to facilitate a customer's order prior to accessing the liquidity in the marketplace.
- When facilitating a customer transaction in a "matched principal" marketplace, BGC may assist the transaction by framing a market. When framing a market in a "matched principal" marketplace, BGC may post or provide live, executable bids and offers at minimum acceptable quantities in an effort (i) to present suitable markets where none exist, or (ii) to exhibit spreads that are more reflective of contemporaneous market opinion. In such cases, BGC's efforts are intended to assist its customers in managing their proprietary positions, to facilitate liquidity for BGC customers and to draw market participants to participate in a transaction. In some cases, BGC may acquire a position as principal on an unmatched trade as of result of posting or providing quotations in this manner.

When BGC acquires a position in the aforementioned circumstances, it will close, manage and mitigate the risk associated with that position in a timely fashion. Accordingly, BGC seeks to liquidate or hedge such positions as soon as reasonably practicable by accessing all suitable and obtainable markets and in accordance with the Regulations or Rules.

### **Price Discovery and Trading Priority** **Electronic Marketplaces.**

For electronic marketplaces as well as for hybrid marketplaces that permit customers to transact either with a voice broker or through the electronic system, the price discovery process takes place through information posted on the electronic screens.

### **Voice Brokered Marketplaces.**

In voice brokered marketplaces, price discovery is generally accomplished over telephone lines, through electronic price dissemination screens and other electronic communication tools. In certain situations, BGC will seek to locate the contra side of a transaction based on a firm request from a client that includes some or all of the order parameters that the client would agree to

transact (i.e., price, transaction size). In other situations, BGC may be asked or expected to work a contingent order. In those cases, it is understood and expected that in facilitating the client's transaction, BGC may need to adjust the contingent order to reflect changes in the price of, or shifts in the curves relating to, underlying instruments or indices with which the instrument(s) (that is the subject of the order), correlate.

In some cases, BGC may on an arms length basis seek out price discovery from competing wholesale market brokers in order to facilitate a customer's trading interest. Complete counterparty details for trades executed with the involvement of competing brokers are usually disclosed at the time of a transaction.

For certain products and order types, applicable Regulations or Rules may mandate the manner and priority of a given execution. For other products and order types, where the client gives BGC indications of interest rather than actual orders, BGC does not take on any obligation to satisfy any client's interest in whole or in part, regardless of whether such order or indication could have been satisfied. For example, on many trades BGC is necessarily working with multiple clients whose interests may be in conflict as to price and volume, and there may be more interest in a particular transaction than can be satisfied by the volume of interest on the other side of that transaction. It is thus frequently the case that the circumstances around a particular transaction may make BGC unable to meet the interests of each of its customers to their optimal level. Subject to applicable Regulations or Rules, BGC reserves the right in its discretion to determine how to prioritize allocations of executions so long as it does not unfairly prejudice a client.

Each of BGC's voice brokered marketplaces operate in a manner consistent with general market practices that address issues such as the entitlements of the aggressor (e.g., the "price taker") with regard to counteroffers, the prioritization of clients responding to an aggressor, the ability of clients to join existing bids or offers, time/price/size prioritization, and the ability of a client to participate in a given transaction. These practices may vary from product to product. While BGC reserves the right without prior notice to depart from the established market protocols in all situations, its normal interest and intent is to employ those practices on a regular and consistent basis.

BGC encourages its clients to familiarize themselves with the typical priority practices utilized in a particular marketplace, and to raise any questions they may have in that regard.

### **BGC Compensation Models**

BGC is chiefly compensated for its role in facilitating and completing transactions by charging its customers a brokerage fee. In a "Name Give Up" context, the fee will typically take the form of an invoiced commission. In a "Matched Principal" context, the fee will typically take the form of a markup or markdown which is added to or subtracted from, as the case may be, the agreed to transaction price.

For certain products, a brokerage fee may be paid by both participants (buyer and seller) in the transaction. For other products, the brokerage fee is paid by one of the participants in the trade. Sometimes the participant that pays will be the liquidity provider, and sometimes it will be the liquidity taker.

In certain cases, the brokerage fee paid to BGC may deviate from the normal rate due to the level of service provided, e.g. time spent, cost of executing etc.

BGC may receive revenue from other means besides a fee. For example, BGC may acquire positions in certain situations and in connection with doing so and in managing and liquidating such positions, it may earn a profit or a loss. As noted, BGC does not engage in such activities with the intent to make a profit and expects the net result of any such activities will be modest gains or

losses.

In addition, in certain fixed income markets, where not contrary to Regulations and Rules, BGC may when acting in a Matched Principal capacity earn a profit by buying a financial instrument at one price and simultaneously or shortly thereafter selling it at a higher price (or vice versa), such that BGC receives the benefit of the “spread” on the trade in addition to any markup or markdown it charges.

### **Publication of Off Screen Trades**

For certain products, BGC provides both voice brokerage and electronic brokerage services (“hybrid markets”). In hybrid markets, when a transaction is arranged through or executed with a voice broker, BGC can publish a record of that transaction on the screen utilized for electronic brokerage of that product so that it is made available to other participants in the marketplace. In the absence of a request from its client not to publish the transaction, BGC may publish the record of such transactions on its electronic screen.

BGC recognizes that its clients may in certain situations prefer that such transactions not be published on the screen, and when requested to refrain from such publication for voice executed transactions, BGC will seek to honor its client’s request to the extent practicable, and to the extent that other participants in the transaction agree to the request. In situations where all parties agree, information regarding that transaction will not be posted on the screen, nor included in any market data feed compiled and supplied by BGC, but BGC will upon request provide oral information regarding the occurrence of the transactions and its terms.

### **Requests For Indicative Valuations**

From time to time, in response to client requests or on its own initiative, BGC may provide or publish information expressing a view of an indicative valuation of a particular financial product. These indicative valuations reflect BGC’s good faith view as a reasonable indication for that particular product, assuming an institutional market normal market size, and the absence of unusual market conditions, such as distressed selling.

BGC does not accept liability for the completeness or accuracy of any such indicative valuations, nor does BGC commit that the parties would or will be able to transact at the levels indicated. All such valuations are subject to any disclosure and disclaimer language that accompanies them and BGC’s then prevailing terms of use. BGC will typically provide such valuations based on the transactional activity that it participates in, though BGC may provide valuations based on transactional activity that takes place away from BGC if BGC reasonably believes that activity to have occurred.

### **Framing Markets**

From time to time, in response to market participants requests or on its own initiative, BGC may provide quotes to frame a market. This may be done electronically or through our voice brokers. These quotes are intended to provide prices where the firm believes a market participant can execute a transaction in a particular financial product. These quotes reflect BGC’s good faith view as a reasonable bid/offer for that particular product. Prices may be received directly from a market participant, or BGC may provide prices where BGC believes that market participants will be able to execute a trade, but does not have a market participant currently offering to trade at that price. In these cases, the price will be based on BGC’s good faith professional judgment.

In many markets BGC acts in a matched principal capacity against its market participants. When acting in a matched principal capacity BGC may frame a market by posting or providing executable bids and offers in an effort to facilitate liquidity for the market participants trading on BGC’s

platforms.

### **Volume Match**

Volume Match is an auction style trading system, which provides customers with efficient price discovery, order management and execution in many products brokered by BGC. Volume Match sessions may be run at specific times or continuously during the day where customer orders can be matched at firm set price levels (“Volume Match Price”), as described below.

Determination of the Volume Match Price shall include any one or a combination of several inputs at the discretion of the firm. These inputs include prices of (i) transactions; (ii) executable or indicative bids or offers; (iii) historical prices at BGC, in BGC trading systems/platforms (including without limitation, Volume Match), or in other markets; (iv) prices derived from: (x) transactions, (y) executable or indicative bids or offers, or (z) historical prices at BGC or in other markets (as described below); or (v) views of active market participants.

### **Derived Prices**

Where prices and/or executable or indicative bids or offers are unavailable for the product/instrument listed during a Volume Match session, the firm may apply price derivation analysis, executable or indicative bids or offers, or historical price information for a similar product traded by the firm, or in another market to determine the Volume Match Price.

The Firm also may apply analytics where bids or offers are available but because of the width of the bid/offer spread or other factors, the Volume Match Price may be ambiguous, and the application of such analytics would provide additional clarity. Such price derivation analysis may include, but is not limited to, empirical cash flow valuations using Libor, Euribor and Overnight Interest Rate bootstrapped Discount Factor curves and forward forecasting curves, credit adjustment and valuation models and options modelling using, but not limited to, industry standard Black Scholes, adjusted Black Scholes (Garman Kohlhagen) and Stochastic Options models on specific option structures.

### **Market Participant Views**

The Firm may also request the views of active market Participants and consider such views in determining the proposed Volume Match Price. In requesting the views of active market Participants, the Firm must act fairly in determining which active market Participants to survey; must weigh the views of market Participants based on market conditions and not on factors unrelated to the Participant’s assessment of market conditions, and shall not knowingly ask for or receive a market view intended solely to favor the market Participant’s position; shall not attempt to coerce or pressure an active market Participant to respond to the request for their views or to alter a view once it has been expressed; and shall not divulge any information regarding the positions or intentions of any other Participant without the consent of such Participant.

In using responses from active market Participants as an input in the determination of the proposed Volume Match price, the Firm shall use its best efforts, acting in good faith, to disregard any prices that are outliers from the consensus view expressed.

Oral, written and any other verbal communications may be recorded and retained as required or otherwise.

### **SEF Transactions**

All Swap transactions involving a US person will be executed on a SEF. Trades arranged by the firms introducing brokers are not executed until they have been submitted and executed on a SEF.

BGC reserves the right to amend and depart from industry broking practices at any time, and without prior notice. The broking practices herein are not intended to and do not create any contractual or other legal right or obligation on behalf of BGC.

### **MTF Transactions**

All orders entered into the MTF system are executable and available for execution (in full) and when executed, will be binding on the participant placing the order.

### **SWAP DEALER Transactions**

BGC Group Inc. has various entities globally that act as introducing brokers with respect to certain swap transactions and may arrange and negotiate swaps on behalf of customers with one or more registered swap dealers, including swap dealers that are affiliates of the Firm (each, an “Affiliated Swap Dealer”).

Customers are advised that an Affiliated Swap Dealer may, at any time, take positions in swaps, including positions that are the same as, similar to, or different from positions taken by customers in swaps that are arranged or negotiated by the Firm. Such positions may be taken for the Affiliated Swap Dealer’s own account or for the account of other customers.

These activities may result in actual or potential conflicts of interest, including circumstances where the interests of an Affiliated Swap Dealer may not be aligned with the interests of the customer. The Affiliated Swap Dealer is not acting as a fiduciary to the customer unless expressly agreed to in writing and is permitted to engage in proprietary trading and other activities in accordance with applicable law.

This disclosure is provided in accordance with CFTC and SEC Security Based Swap Rules and are intended to inform customers of the material risks and conflicts associated with swaps involving affiliated entities. Customers are encouraged to review this disclosure carefully and to consult their own legal, tax, or financial advisors regarding the implications of executing swap transactions.