

▲ McAdams ▲ Wright ▲ Ragen ▲

I N C O R P O R A T E D

Payment for Order Flow

Regulation NMS requires that all broker-dealers notify their customers of their payment for order flow practices at account opening and on an annual basis, even if they do not receive any payment for order flow.

McAdams Wright Ragen, Inc. (“MWR”) routes orders through National Financial Services, LLC (“NFS”), which provides securities clearance services for MWR and is a member of the New York Stock Exchange and other major stock exchanges.

MWR also routes orders to Knight Direct LLC (“Knight”) to take advantage of their algorithmic trading capacities, including the ability to execute VWAP (volume-weighted average price) transactions and to execute trades in accordance with the requirements for Rule 10b-18 issuer buy-backs. Under its agreement with Knight, Knight passes through the rebates and liquidity charges Knight receives from other execution venues as determined by Knight’s own volume rates. Transactions executed through Knight are subject to a maximum charge of \$0.0023 per share. In May of 2011, MWR received, on average, rebates from Knight of \$0.0019117 per share for all transactions routed to and subsequently executed through Knight.

In addition to orders routed through NFS and Knight, MWR executes its own orders. Orders handled by MWR may be executed in an agency, dual agency, and/or principal capacity, including as a market maker. In the regular course of business, MWR routes orders to market centers that either charge MWR or credit MWR depending on the nature of the order. Routing decisions are based, in most cases, on which market center is providing the best bid or offer at that specific time, not on the fees and charges associated with the market center. Nonetheless, with respect to these orders, please note the following:

- Industry-wide pricing practices result in charges or credits (“liquidity rebates” and “liquidity charges”) to MWR for routing orders to certain market centers. MWR transmits customer orders for execution to various exchanges or market centers based on a number of factors, including size of the order, trading characteristics of the security, favorable execution prices (including the opportunity for price improvement), access to reliable market data, availability of efficient automated transaction processing, and reduced execution costs through price concessions from market centers. For most customer orders, however, the primary consideration is a real-time decision as to which market center is currently providing the best bid or offer.
- Certain of the market centers may execute orders at prices superior to the publicly quoted market in accordance with their rules and practices.
- While a customer may specify that an order be directed to a particular market center for execution, MWR’s order-routing policies, taking into consideration all of the factors listed above, are designed to result in favorable transaction processing for customers.
- When routing orders to NYSE Arca, MWR is subject to a rebate for adding liquidity of \$0.0021 per share for NYSE-listed securities and .0021 per share for Nasdaq securities. The firm is charged for removing liquidity at a rate of \$0.0030 per share in all NYSE Arca executions.
- MWR is a member of the Nasdaq Stock Market and a registered market maker. When routing orders to the Nasdaq Stock Market, Inc. (“Nasdaq”), MWR receives a rebate for adding liquidity of \$0.0020 per share for displayed liquidity and \$0.0010 per share for non-displayed liquidity. MWR is charged a fee of \$0.0030 per share for removing liquidity. For shares executed below \$1, the rebate for adding liquidity is \$0.00009 per share executed between \$0.050 and \$0.9999. For shares executed below \$1, the fee to remove liquidity is \$0.000 of the total dollar volume.
- MWR is a member of the BATS Exchange and, prior to June 2011, routed orders for execution on both the BATS BZX and the BATS-Y exchanges. For transactions executed on the BZX, MWR received a rebate for adding displayed liquidity of \$0.00270 per share, or a rebate of \$0.0020 per share for adding non-displayed liquidity. MWR was charged \$0.00280 per share for orders that remove liquidity. For orders routed to and executed on the BATS-Y exchange, MWR was

charged \$0.0030 for orders that removed liquidity. For orders adding displayed liquidity, the firm received rebates of \$0.00020 per share. For orders adding non-displayed liquidity, MWR received \$0.0010 per share. In June of 2011, MWR asked that Bloomberg, the firm's provider of order routing and execution systems, remove access to BATS due to additional systems charges assessed by Bloomberg.

- Where MWR trades as principal, including transactions executed as market maker, the firm stands to earn 100% of whatever profits or losses are generated from those transactions. The firm acts as a market maker in a number of securities that may be considered illiquid due to low trading volume and/or a limited number of market makers. MWR may therefore have a significant impact on price and volume in these securities by virtue of its proprietary trading volume or changes to its bid and offer.