



May 2018

Dear Valued Subscriber,

We are taking this opportunity to make disclosures regarding certain U.S. Securities and Exchange Commission ("SEC") regulations and Financial Industry Regulatory Authority, Inc. ("FINRA") rules applicable to, and certain policies of, CODA Markets, Inc.

**About CODA Markets, Inc.**

CODA Markets, Inc. is a SEC-registered Broker Dealer and FINRA member that operates an Alternative Trading System as defined under Rule 300(a) of the SEC's Regulation ATS. CODA Markets is wholly owned by PDQ Enterprises, LLC.

**Subscribers**

CODA Markets is the sponsor of the CODA Markets Alternative Trading System ("CODA"). Registered broker-dealers and qualified institutions are eligible to become subscribers to CODA. Neither CODA Markets nor its affiliate(s) act as principal or trade for their own account within CODA.

CODA has two classes of subscribers:

Liquidity Seekers

Liquidity Seekers are broker dealers and qualified institutional subscribers seeking liquidity discovery and potential price improvement by routing orders to CODA. Liquidity Seekers may access and trade at CODA using a variety of order types, including order types that allow Liquidity Seekers to "provide liquidity".

Liquidity Providers

Liquidity Providers are broker dealers and qualified institutional subscribers who respond electronically to liquidity-seeking order flow.

**Order Types and Time-in-Force Values**

Side: CODA accepts buy, sell, sell short and sell short exempt orders.

Order Types:

Liquidity Seekers

CODA accepts Market, Limit, Pegged, Conditional, and Managed orders. CODA accepts time-in-force values Day, Immediate or Cancel (IOC), and Good-'til-Cancelled (GTC, GTD, GTX), from its Liquidity Seekers. Good-'til-cancelled orders will be handled as day orders and may trade or route away during the regular trading hours, but will expire at the end of CODA's trading day.

Liquidity Providers

Liquidity Providers may only trade at CODA on an Immediate or Cancel (IOC) basis using Limit or Pegged order types.

### **Manner of Operation of the Alternative Trading System**

CODA receives and executes orders that can be matched or crossed in an agency capacity via CODA's on-demand order initiated auction matching protocols. To address the varying liquidity needs and diverse workflows of its subscriber base, CODA offers two Auction Types:

**CODA MICRO:** During CODA MICRO a liquidity seeking order is routed to CODA and subjected to a pause of up to 20 milliseconds or auction order period.

**CODA BLOCK:** is CODA's on-demand block auction type. A 30-second pause serves as the approximate time length of the auction and order entry period during which orders are entered by subscribers into a non-displayed auction order book.

Please refer to CODA's Form ATS, specifically Exhibit F, Sections (a), (b) and (c) for additional detail related to access and available services specific to Seekers and Providers. CODA's Form ATS can be found at [www.codamarkets.com](http://www.codamarkets.com).

### **Request for Trades/Auction Alerts**

In connection with both of its on-demand order initiated auction types, CODA MICRO and CODA BLOCK, CODA distributes Request-for-Trades ("RFT" or "Auction Alert"), an IOI messaging type to other subscribers (liquidity providers and in some cases seekers) to attract liquidity that may interact with the initiating order. To minimize information leakage and protect the initiating Seeker's order, the information included in RFT/Auction Alerts sent is limited to the ticker symbol from the initiating orders, unless otherwise requested by the Liquidity Seeker. Additional ancillary information may be included in the RFT/Auction Alert including a commission amount to be assessed if a trade occurs, midpoint pegging instructions (not supported in CODA BLOCK), and/or the duration of the Auction Type or matching engine logic for the corresponding auction. For further details concerning RFT/Auction Alerts, please refer to CODA's Form ATS available at [www.codamarkets.com](http://www.codamarkets.com).

### **Conditional Orders**

CODA offers conditional order functionality in both on-demand auction facilities it operates, CODA MICRO and CODA BLOCK. Conditional orders do not initiate an auction. A Conditional order sent to CODA is invited to firm up when CODA receives an executable contra side liquidity-seeking order (except in CODA BLOCK auctions). A Conditional order must be replaced with a firm (Market, Limit or Pegged) order prior to execution. The process of replacing Conditional orders with firm orders, known as a "firm up," introduces latency to the execution process. As such, Conditional orders may not be eligible to interact with some liquidity-seeking order flow. During the matching process, Managed Orders that are firm orders are given priority over Conditional orders if their prices are equal (does not apply to CODA BLOCK). Detailed information regarding use of Conditional orders in CODA's auctions can be found in CODA's Form ATS available at [www.codamarkets.com](http://www.codamarkets.com) and in our Conditional Order Addendum to the CODA Liquidity Seeker Guide – FIX Specification.

### **Securities Eligible for Trading**

CODA offers trading in Regulation NMS equity securities only. Securities designated by CODA are eligible for round, mix and odd-lot executions unless determined otherwise. For more information concerning the operations of CODA, please see CODA's Form ATS available at [www.codamarkets.com](http://www.codamarkets.com).

**Minimum Pricing Increments**

CODA only accepts orders priced in increments permissible under Regulation NMS Rule 612 and FINRA Rule 6434. As a result, CODA will reject any order in any NMS stock priced at an increment smaller than \$0.01 if the order is priced equal to or greater than \$1.00 per share, as well as orders in NMS stocks at an increment smaller than \$0.0001 if priced less than \$1.00 per share. However, midpoint executions may occur at sub-penny values. For more details about each order type and unique IOC instructions, please see CODA's Form ATS available at [www.codamarkets.com](http://www.codamarkets.com).

**Regulation SHO**

CODA subscribers are responsible for ensuring that all sell orders sent to CODA are properly marked as required by Rule 200 of Regulation SHO. Pursuant to Rule 203(b)(2)(i) of Regulation SHO, registered Broker Dealer subscribers are responsible for complying with the locate requirements of Rule 203(b)(1) of Regulation SHO. CODA Markets does not borrow or "locate" securities with respect to subscriber orders. By sending a short sale order to CODA, you are affirming your ability to borrow or you are relying on an exception to the Regulation SHO locate requirement. Orders marked "Y" (Client does not affirm ability to borrow) will result in a reject.

Subscribers that are not U.S. Broker Dealers are required to provide locate information in orders sent to CODA. More information concerning this requirement can be found in CODA Markets Fix Specifications available upon request.

**Trading Risk Controls**

As a market center, CODA employs policies, procedures and controls in order to systematically limit financial, operational, market, regulatory and legal risks that could arise as a result of market access. Specifically, CODA will reject, on an order by order basis, orders that exceed applicable thresholds including but not limited to, the price, size and or frequency of the orders. In order to establish appropriate limits for our subscribers, we may periodically request that your firm provide additional information, including but not limited to an updated FOCUS report or other comparable financial document. CODA has no obligation to accept, execute, or cancel all or any part of an order that you seek to execute or cancel through CODA.

**Reg NMS, Rule 605 – Disclosure of Order Execution Information**

SEC Rule 605 requires market centers that trade National Market Security System securities to make available to the public monthly electronic reports that include uniform statistical measures of execution quality. CODA Markets statistics are posted by The Karn Group, an independent service provider. While CODA Markets seeks to ensure the accuracy of the data prepared by The Karn Group, it does not represent or warrant that such data is accurate. These reports are available for download at [www.codamarkets.com](http://www.codamarkets.com).

**Reg NMS, Rule 606 – Disclosure of Order Routing Information**

SEC Rule 606 provides all customers the opportunity to receive specific order routing information for their transactions. Upon request from a customer subscriber, CODA Markets will provide the identity of the venue to which each of the customer's orders were routed for execution during the six months prior to the request. If you wish to receive this information, please contact us at (224) 521-2709. SEC Rule 606 also requires broker-dealers, including CODA Markets, to provide information on a quarterly basis concerning order routing practices for securities listed on the NYSE, NASDAQ, AMEX or regional exchanges. Broker-dealers are required to disclose their most frequent order routing

destinations and to disclose any material aspects of their relationship with these venues including any payment for order flow arrangements. When we are required to make such disclosures under applicable rules, these reports will be made publicly available at [www.codamarkets.com](http://www.codamarkets.com).

#### **Payment for Order Flow Disclosure**

CODA Markets routes equity orders to national securities exchanges, alternative trading systems, which may include electronic communications networks, broker dealers and other market centers. CODA may receive payment in the form of either a per share payment from market centers, a payment from an Exchange for providing or taking liquidity or in the form of a profit sharing arrangement with executing venues. CODA Markets considers these forms of payment to be payment for order flow even though it may not necessarily offset CODA Markets' aggregate payments for removing liquidity. In this regard, in any given month, the "credits" received by CODA Markets from a given market center may exceed the "debits" charged to CODA Markets for such period. Therefore, such excess credits paid to CODA Markets may constitute, according to regulatory interpretation, payment for order flow.

#### **Order Handling**

CODA Markets offers numerous order handling and routing strategies for finding liquidity (passive and aggressive) in the marketplace. CODA will create execution options with the goal of increasing fill rate, reducing trading costs and minimizing market impact for its subscribers. Each of the strategies may be customized with the input of the Liquidity Seeker based on criteria such as time, strategy and cost. Additionally, Liquidity Seekers can elect not to have their orders routed to a specified destination via written request to [codaopsdesk@codamarkets.com](mailto:codaopsdesk@codamarkets.com).

At the discretion of the subscriber, CODA may, depending on several factors, route an order to source additional liquidity in an effort to achieve best execution in the prevailing marketplace. Examples of those factors include, but are not limited to: (i) the character of the market for the security (e.g., price, volatility, and relative liquidity); (ii) the size of the order and type of transaction; (iii) the terms and conditions of the order as communicated by the subscriber; (iv) the opportunity to obtain price improvement, (iv) the opportunity to execute a larger percentage of the order size than displayed in the market, and (v) to avoid potentially adverse market moves due to the size and price of the order. CODA may route an order to other broker-dealers (including market makers), alternative trading systems, dark pools, and to national securities exchanges for execution.

Additionally, as a practice, CODA executes orders during locked market conditions for a particular symbol. Subscribers may opt out of this functionality via written request. CODA does not execute orders during crossed market conditions for any symbol.

#### **Riskless Principal, Principal and Net Trading**

CODA Markets acts solely in an agency capacity for all executions. In the course of handling your order, we may route to venues including exchanges, market makers and alternative trading systems. Some of these destinations may handle your order on a riskless principal, principal and/or net trading basis. Certain orders may be routed on a not held basis in an attempt to obtain the best price possible in the prevailing market.

As defined in FINRA rule 2441, a “net” transaction is a principal transaction in which a market maker, after having received an order to buy (sell) an equity security, purchases (sells) the equity security at one price (from (to) another broker-dealer or another customer) and then sells to (buys from) the customer at a different price. The price difference represents the compensation the market maker receives for facilitating the order. CODA does not trade on a “net” basis. CODA is an independent broker that solely acts in an agency capacity. CODA does not make markets or trade proprietarily. CODA may, in the course of routing your order seeking liquidity and a favorable execution price in the marketplace, route your order to one or more venues including those which may execute the order on a net basis. In some instances, CODA maintains profit sharing arrangements with certain executing venues. The execution price you receive is the price received by CODA from the executing venue. Broker-Dealer subscribers who route orders to CODA should understand their disclosure obligations to their end customers. If you do not wish to have your orders handled on a net basis, please contact us at [codaopsdesk@codamarkets.com](mailto:codaopsdesk@codamarkets.com).

#### **Information Handling**

CODA Markets and its affiliate’s personnel may have access to, use and provide counterparties with information on an anonymous and aggregated basis, including but not limited to your orders (i.e., orders executed in full or part, cancelled, or expired), trade and other data and analytics (collectively, “Anonymous and Aggregated Data”). This Anonymous and Aggregated Data may be used for market color reports, analytical tools, transaction analysis and risk management applications. CODA Markets maintains a “need to know” standard, which provides that access to your counterparty-specific information is limited to those employees who have a “need to know” such information to perform their duties and to carry out the purpose for which the information is provided.

#### **Extended Trading Hours Disclosure**

CODA will accept orders beginning at 6:00 am Eastern Time (“ET”) but will only execute or “match” orders in the capacity of an ATS during normal market hours of 9:30 am to 4:00 pm ET. Orders received after CODA’s operating hours will be routed to execution venues by CODA until 4:30 pm ET. Subscribers participating in extended trading hours should be aware of the additional risks associated with trading during extended trading hours including but not limited to the potential for lower liquidity, higher volatility and wider spreads. For more information on extended trading hours and associated risks, please visit [www.codamarkets.com](http://www.codamarkets.com) and follow the Policies link for Extended Hours Trading.

#### **Clearly Erroneous Trade Policy**

A Clearly Erroneous Trade is when there is an obvious error in any term, such as price, number of shares or other unit of trading, which is defined as an execution at a price, for a quantity of shares, or with a symbol, that is substantially inconsistent with the current trading pattern of the issue. A transaction made in clearly erroneous error and cancelled by both parties or determined by CODA Markets to be clearly erroneous will be removed from the Consolidated Tape. A subscriber that receives an execution on an order that was submitted erroneously to CODA for its own or customer account may request that CODA review the transaction. An officer of CODA Markets or such other employee designee shall review the transaction under dispute and determine whether it is clearly erroneous, with a view toward maintaining a fair and orderly market and the protection of investors and the public interest. Such request for review shall be made in writing via email or other electronic means.

Requests for review shall be received by CODA Markets within thirty (30) minutes of execution time and shall include information concerning the time of the transaction(s), security symbol(s), number of shares, price(s), side (bought or sold), and factual basis for believing that the trade is clearly erroneous.

Upon receipt of a timely filed request following these guidelines, the counterparty to the trade shall be notified by CODA Markets as soon as practicable, but generally within thirty (30) minutes. If requested, each party to the transaction shall provide any supporting written information as may be reasonably requested by CODA Markets to aid resolution of the matter within thirty (30) minutes of the request.

More information concerning CODA Clearly Erroneous Trade Policy is available at [www.codamarkets.com](http://www.codamarkets.com) under the Policies link.

#### **FINRA BrokerCheck**

Pursuant to FINRA Rule 2267, CODA Markets reminds you of the availability of information from FINRA. Specifically, the Public Disclosure Program from FINRA BrokerCheck is for you to gain convenient access to information about securities firms and their associated personnel. The information provided by BrokerCheck may be requested by calling FINRA's BrokerCheck Hotline Number (800) 289-9999 or by visiting the FINRA website at [www.FINRA.org](http://www.FINRA.org).

#### **SIPC Notification**

CODA Markets is a member of the Securities Investor Protection Corporation ("SIPC"). All subscribers are advised that information about SIPC, including the SIPC brochure, may be obtained by contacting SIPC by phone at (202) 371-8300 or email at [asksipc@sipc.org](mailto:asksipc@sipc.org). For more detailed information, please visit the SIPC website at [www.sipc.org](http://www.sipc.org).

#### **Business Continuity Plan**

CODA Markets has developed a Business Continuity Plan ("BCP") that includes the ability to recover from situations including, but not limited to floods, power outages and any facilities failures that may cause business interruptions. Although no contingency plan can eliminate all risk of service interruption, CODA Markets assesses and updates its BCP to mitigate reasonable risks. While the specific details of our BCP are proprietary and contain information which is confidential, CODA Market's policy is to respond to a significant business disruption by safeguarding employee lives and firm property, making a financial and operational assessment, quickly recovering and resuming operations, protecting the firm's books and records, and allowing CODA subscribers to continue to transact business. For more information concerning the CODA Markets Business Continuity Plan, please visit [www.codamarkets.com](http://www.codamarkets.com).

#### **Privacy Notice**

The CODA Markets website does not require you to provide personal, nonpublic information. We may only collect personal, nonpublic information that you knowingly and willingly supply to us. Additionally, we may collect data on the general usage of the CODA Markets site. Like most websites, our site maintains logs that when analyzed show IP addresses of our visitors, date and time and pages viewed. These reports do not contain personally identifiable information. Cookies are also used on our site. Cookies are small text files that are placed in a site visitor's computer that contain



no personal information about the visitor, but enable us to determine whether the site visitor has viewed the site previously. If you have any questions about our Privacy Notice, please contact us at [privacyinquiries@codamarkets.com](mailto:privacyinquiries@codamarkets.com).

**For More Information**

If you have questions about any of the information provided above, please contact us at [codaopsdesk@codamarkets.com](mailto:codaopsdesk@codamarkets.com).