



March 2022

Re: Order Handling Practices, Terms of Dealing, and Regulatory Disclosures

Dear Customer:

At Scotia Capital (USA) Inc. ("SCUSA," the "Firm," "we," "our," "us"), our top priority is to provide our customers and their representatives ("you," "your") with transparency on our business practices. This letter contains information regarding our order handling practices and terms of dealing as well as certain important disclosures related to SCUSA and the services we provide to our customers.

## **I. Disclosures Applicable to All SCUSA Customers**

### **Compliance with Applicable Law**

We are committed to conducting business in compliance with all applicable laws, rules and regulations and with the policies and practices of securities and futures exchanges and clearing houses, alternative trading facilities, and self-regulatory organizations.

We expect that all orders you send to us comply with and fulfill all obligations under applicable laws, rules, and regulations.

### **Order Handling in Non-Normal Market Conditions**

When non-normal market conditions exist, we reserve the right, in our sole discretion, to reduce, modify, suspend, or cancel any of our order handling protocols without notice.

### **Order Acceptance**

Orders, and their instructions, sent via e-mail are not considered to be received or accepted until an agent of SCUSA confirms the order either verbally or in writing.

### **Best Execution (FINRA Rule 5310)**

We seek to execute our customers' orders at the most favorable terms reasonably available under prevailing market conditions. In seeking best execution for your orders, we take a number of factors into consideration in determining how to execute and where to route orders, including, among other things, the size and type of order, the terms and conditions of the order, the trading characteristics of the security, the character of the market for the security, the accessibility of quotations, transaction costs, the opportunity for price or size improvement, the speed of execution, the availability of efficient and reliable order handling systems, the level of service provided by the venue or broker, and your overall investment objectives.

### **Market Access (SEC Rule 15c3-5)**

The Market Access Rule requires broker-dealers providing market access to have risk management controls that are reasonably designed to prevent the entry of erroneous orders on exchanges or alternative trading systems. We enforce certain risk management controls, including daily aggregate notional thresholds and controls designed to identify potentially erroneous orders. As a result of these controls, we may, in our sole discretion, reject your order or delay the processing of your order, while determining whether to accept or reject it.



For details concerning controls applied to your orders, please contact your SCUSA sales representative.

### **Access and Use of Customer Information**

Protecting the confidentiality and security of customer order, execution, position, revenue, and related information ("Customer Information") is an important part of how we conduct our business, and we have implemented controls that are reasonably designed to protect such information. We may use Customer Information for a variety of purposes, including customer coverage, supervision, risk management, liquidity provision, and business strategy, and may disclose such information in connection with our regulatory obligations, customer instructions, and normal course brokerage functions. We may also use or disclose aggregated and anonymized Customer Information for internal purposes as well as in connection with products and services.

### **Phone Recording**

Certain telephone lines in our sales and trading departments are recorded. Please note that these recordings may be made with or without the use of a spoken warning, tone, or similar notification.

### **Disclosure of Financial Condition (FINRA Rule 2261)**

Upon request, we are required to make available to inspection by any *bona fide* regular customer the information relative to our financial condition as disclosed in our most recent balance sheet prepared either in accordance with our usual practice or as required by any state or federal securities laws, or any rule or regulation thereunder. SCUSA's most recent Statement of Financial Condition may be found at [http://www.gbm.scotiabank.com/AboutUs/AB\\_Global\\_Presence.htm#](http://www.gbm.scotiabank.com/AboutUs/AB_Global_Presence.htm#).

### **SIPC Information (FINRA Rule 2266)**

SCUSA is a member of the Securities Investor Protection Corporation ("SIPC"). Customers may obtain information about SIPC, including the SIPC brochure, by contacting SIPC at [www.sipc.org](http://www.sipc.org) or (202)371-8300.

### **Investor Education and Protection Information (FINRA Rule 2267)**

BrokerCheck provides investors with the ability to research the professional backgrounds, business practices, and conduct of FINRA-registered brokerage firms and brokers. In connection with this program, investors may call the BrokerCheck Hotline at (800)289-9999 and/or visit the FINRA website at <http://brokercheck.finra.org/Search/Search>. An investor brochure that includes information describing the FINRA BrokerCheck Program is available from either of these sources.

### **Business Continuity Plan (FINRA Rule 4370)**

We maintain a business continuity plan with established procedures in the event of an emergency or significant business disruption. Information regarding SCUSA's Business Continuity Plan may be found at <https://www.gbm.scotiabank.com/content/dam/gbm/import/pdfs/legal/us-policies-and-disclosures/regulatory/SCUSA-BCP-Disclosure-Document.pdf>.

### **Customer Complaints (FINRA Rule 4530)**

We endeavor to investigate any customer complaint promptly. We are required to promptly report to FINRA no later than 30 calendar days after we know or should have known of the existence of a written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery. Customer complaints or inquiries related to any SCUSA matter may be directed to the following address:



GLOBAL BANKING AND MARKETS

Karen Wendell  
Chief Compliance Officer  
Scotia Capital (USA) Inc.  
250 Vesey Street  
New York, NY 10281  
E-Mail – [karen.wendell@scotiabank.com](mailto:karen.wendell@scotiabank.com)  
Telephone Number – (212) 225-5376

## **Desk Commentary**

Our sales and trading personnel may produce and distribute written commentary based on their observations of market activity or news, which may include trade ideas (“Desk Commentary”). Desk Commentary produced by sales and trading personnel is intended for institutional investors. Desk Commentary is not research and customers should assume that Desk Commentary is not independent of the Firm’s proprietary interests. SCUSA and its affiliated companies trade, and will continue to trade, the securities covered in Desk Commentary for their own account and on behalf of other customers. Such trading interests may be contrary to, or entered into in advance of distributing, the Desk Commentary.

## **II. Disclosures Applicable to SCUSA Equities Customers**

### **Not Held Orders**

A “not held” order is one in which you have granted us price and time discretion. Orders accepted on behalf of our institutional customers will be handled on a “not held” basis, unless affirmatively stated by you to handle your order according to specific terms and conditions, (*i.e.*, a “held” order as identified below. A “not held” designation provides us greater flexibility in the manner in which that order is executed by allowing us to take into consideration several factors, including for example, the size of the order relative to the liquidity in the market, the relative urgency for execution, special order instructions relating to representing a certain percentage of volume in the market, benchmarking agency executions to the market volume weighted average price, and requests for capital commitment all of which may have an impact on how your order is executed. Furthermore, it is possible that all or part of a “not held” order may not be displayed in a public quotation system. Consequently, some “not held” orders may be executed at prices that are inferior to prices received by other customer orders.

Orders handled electronically will be executed on a “not held” basis. For example, all orders routed by us to trading algorithms will be handled on a “not held” basis, unless marked otherwise. Where a conflict arises between an order that is designated as “held,” but also contains explicit order instructions to be “worked,” or is designated to be executed electronically, we reserve the right to treat the order as “not held.”

### **Held Orders**

A “held” order is one in which you instruct us to immediately submit your order for execution and which obligates us to execute your market order immediately at the then prevailing market price or your limit order at your limit price (or better).

### **Guaranteed Orders**

A “guaranteed order” is one in which we have agreed to execute, as principal, a trade with you in a specified or unknown security at a price based on an agreed-upon benchmark or other pricing formula, such as the closing price or volume-weighted average price of the security. When we accept a guaranteed order, we may also engage in hedging, facilitation or other risk-mitigating trading activity, which could potentially impact the market for the security involved in the transaction. When engaging in



such activity, however, we are committed to executing your orders in a manner that does not compromise your interests or advance our interests ahead of yours.

### **Order Routing Information (SEC Rule 606)**

Brokers-dealers that route customer orders in certain equity and option securities are required to disclose certain information regarding these orders on a quarterly basis. Upon your request, we will disclose to you the identity of the venue or broker to which any of your orders were routed for execution in the preceding six months, whether those orders were directed or non-directed orders, and the time of any transactions that resulted from those orders. Please contact your sales representative to request an individualized report.

We have contracted with a vendor, IHS Markit, to prepare and display statistical reports for SCUSA. To view SCUSA's SEC Rule 606 Reports on Routing of Customer Orders, visit the IHS Markit website at: <https://mta.ihsmarkit.com/app-v2/public-report-library/public-report-library-view/Scotia%20Capital%20%28USA%29%20Inc/248>

### **Payment for Order Flow (SEC Rule 607)**

We are required by the SEC to disclose to new customers, and annually to all customers, our policies regarding the practice of receiving "payment for order flow." The SEC generally defines "payment for order flow" to include any cash or non-cash compensation received by a broker-dealer from another broker-dealer, national securities exchange, registered securities association, or exchange member in return for sending customer orders to such entities for execution.

In order to obtain best execution, we route customer orders in equity securities to national securities exchanges, alternative trading systems, broker-dealers and other market centers. We may receive compensation in the form of rebates for routing orders to particular broker-dealers or market centers for execution. This does not impact our policy to route customer orders where we determine the orders will receive best execution.

### **Order Protection Rule (SEC Regulation NMS Rule 611)**

The Order Protection Rule establishes intermarket price protection against trade-throughs for all NMS stocks (broadly, exchange listed securities other than options) by restricting the execution of trades on automated trading centers at prices inferior to the protected quotes displayed by other automated trading centers. A "trade-through" occurs when a market participant executes an agency or principal order during regular market hours at a price that is worse than the protected quotes displayed by these trading centers.

Consequently, when executing your order in an NMS stock, we are prohibited from effecting transactions at prices that are lower (higher) than the best bids (offers) in the market, without first satisfying the better-priced protected quotes. The Order Protection Rule contains several exceptions that permit the execution of trades at prices that would otherwise constitute a trade-through. In the absence of another exception, we will simultaneously route one or more intermarket-sweep limit orders ("ISOs"), as necessary, to execute against the full displayed size of any superior priced protected bid or offer. In general, we will provide customers with the automatic ISO executions priced better than an agreed upon trade price. However, if you prefer to receive one execution at the agreed upon price rather than the fills generated through the ISO routed, please notify your SCUSA sales representative to document your consent on an order-by-order basis.

### **Large Trader Reporting (SEC Rule 13h-1)**



Customers who have registered as large traders are required to notify SCUSA and provide their large trader identification numbers ("LTID"). We have a responsibility to monitor our customers' accounts for compliance with the large trader registration requirement. As a result, we monitor and keep records of the activity of any customers we know or have reason to know is a large trader based on that customer's transactions, and we are obligated to report large trader transaction information to the SEC upon request. If your activity exceeds the large trader activity level, we will notify you of your potential obligations under SEC Rule 13h-1.

### **Extended Hours Trading Risk Disclosure (FINRA Rule 2265)**

Under extended hours trading ("EHT"), customers have the ability to trade securities either before or after regular market hours, which are 9:30 a.m. to 4:00 p.m. Eastern Standard Time. Participating in EHT entails several material risks, which may include the following:

1. **Risk of Lower Liquidity:** Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower liquidity in EHT as compared to regular market hours. As a result, your order may only be partially executed, or not at all.
2. **Risk of Higher Volatility:** Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in EHT than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in EHT than you would during regular market hours.
3. **Risk of Changing Prices:** The prices of securities traded in EHT may not reflect the prices either at the end of regular market hours, or upon the opening the next morning. As a result, you may receive an inferior price in EHT than you would during regular market hours.
4. **Risk of Unlinked Markets:** Depending on the EHT system or the time of day, the prices displayed on a particular EHT system may not reflect the prices in other concurrently operating EHT systems dealing in the same securities. Accordingly, you may receive an inferior price in one EHT system than you would in another EHT.
5. **Risk of News Announcements:** Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In EHT, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.
6. **Risk of Wider Spreads:** The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in EHT may result in wider than normal spreads for a particular security.
7. **Risk of Lack of Calculation or Dissemination of Underlying Index Value or Intraday Value:** For certain products, an updated underlying index value or intraday indicative value may not be calculated or publicly disseminated in EHT. Since the underlying index value and intraday indicative value are not calculated or widely disseminated during EHT, an investor who is unable to calculate implied values for certain derivative securities in those trading sessions may be at a disadvantage to market professionals. Additionally, securities underlying the indexes or portfolios will not be regularly trading as they are during RHT, or may not be trading at all. This may cause prices during EHT to not reflect the prices of those securities when they open for trading.



8. **Orders:** Orders entered for execution outside of regular hours trading ("RHT") must be specifically designated as such and will not carry over from regular trading sessions unless SCUSA and you specifically agree to the contrary. Orders not executed by the close of the non-regular trading session on the day that SCUSA receives them will be cancelled, unless SCUSA and you specifically agree to the contrary.
9. **Handling of Orders:** We will attempt to have all orders received by it for execution outside of RHT executed in a timely manner. However, because the bid and offer prices of orders reflected in quotations outside of RHT are subject to change, there is no guarantee that your orders will be executed. In addition, delays or failures in communications or other computer system problems may cause delays in, or prevent, the execution of orders. As with orders entered during the regular trading sessions, you agree that we may deliver your order to an electronic communication network or other alternative trading system that, although operated independently of SCUSA, may have SCUSA or one of its affiliates as an equity investor. In addition, SCUSA and one or more of its affiliates may decide to display orders or to trade with limit orders displayed by us on your behalf. These affiliates may operate independently of SCUSA.
10. **Cancellation or Change Requests:** You may attempt to change or cancel orders placed outside of RHT at any time so long as they have not been executed. Due to the risk of communication delays, it is possible that all or a portion of such orders may be executed before the change or cancellation request is processed. Unless SCUSA and you specifically agree to the contrary, you cannot change an order entered outside of RHT to a regular trading session order, and all unexecuted orders placed outside of RHT will be cancelled at the close of the trading session, on the day that we receive them.
11. **Trade Settlement:** The trade date for orders entered outside of RHT will be the date of order execution. Such trades will normally settle in accordance with the customer settlement time applicable to the market in which orders were executed.

#### **Front Running of Block Transactions (FINRA Rule 5270)**

SCUSA and its affiliates are prohibited from trading for Firm accounts when the Firm has material, non-public information concerning an imminent customer block transaction. The prohibition applies to any equity security, fixed income security, option, derivative, security-based swap or other financial instrument overlying a security that is the subject of an imminent block transaction.

We may trade principally for the Firm's own account for the purpose of fulfilling, or facilitating the execution of the customer block order. The trading may include hedging, block positioning, or engaging in transactions in related financial instruments (which include options or derivatives) that fulfill or facilitate your block transaction. When engaging in such hedging or positioning activity, we will make every effort to minimize any potential market impact and obtain the best possible prices for your orders.

#### **Prohibition Against Trading Ahead of Customer Orders (FINRA Rule 5320)**

FINRA Rule 5320 generally prohibits a member firm that accepts and holds a customer order from trading for its own account at terms that would satisfy the customer order, unless the member immediately thereafter executes the customer order at the same or better price than it traded for its own account. While the rule applies broadly to all types of customers and order sizes, it provides the below listed exemptions that permit us to trade for the Firm's own account ahead of customer orders. Please note that consistent with existing regulatory guidance, FINRA Rule 5320 is not applicable to not-held orders.





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- Large orders (orders of 10,000 or more shares with a total value of greater than \$100,000) and/or orders by institutional accounts are exempted from the requirements of FINRA Rule 5320. We will generally handle such orders in accordance with your instructions. While handling such orders, we may trade for our own account at prices that would satisfy the customer order without having the obligation to immediately thereafter fill the customer order at that price.
- We are permitted under FINRA Rule 5320 to trade for a Firm account while handling your order, unless you inform us otherwise. Please note that you may notify us that you do not consent (opt-out of consent) by contacting your SCUSA sales representative. Your election may be applied on an order-by-order basis or an all order basis. Such instruction may limit the range of execution alternatives we and our routing destinations are able to offer.
- FINRA Rule 5320 contains a "no knowledge" exemption, which permits a firm to trade for its own account in certain securities provided that the unit trading does not have knowledge of customer orders that would trigger restrictions under FINRA Rule 5320. We maintain and utilize an effective system of internal controls known as information barriers between our trading units. These information barriers are designed to prevent one trading unit from having knowledge of customer orders held by a different trading unit. As such, from time-to-time one trading unit may hold a customer order while another trading unit, without having knowledge of the customer order, executes an order for a Firm account that would satisfy the customer order.

### **Clearly Erroneous (FINRA Rule 11890 Series)**

A "clearly erroneous" transaction is an execution of an order that was entered in error (e.g., in terms of price, quantity or symbol) and at a price substantially away from, or inconsistent with, the prevailing market for that security at the time of execution. We reserve the right, to be exercised at our discretion, to modify the terms of, or to cancel, transactions that we determine to be the result of clearly erroneous orders placed by a customer or the result of inaccurate market data. Please refer to the FINRA Rule 11890 Series for additional information concerning clearly erroneous transactions and filings. In addition, if the SEC, an SRO, or other applicable regulatory body determines that an executed trade is clearly erroneous or must otherwise be cancelled, we will be required to cancel the trade and will not be able to honor the executed price, any price guarantee or other terms associated with such trade.

### **Indications of Interest ("IOIs")**

We use certain service providers to advertise IOIs. IOIs are expressions of trading interest that contain one or more of the following elements: security name, side of the market, size, and/or price. When publishing IOIs, we will adhere to the guidance issued by regulators and service providers, including the manner in which we will designate an IOI as a "natural" IOI.

### **Professional Customer Designation for Option Orders**

SCUSA, as a member of all U.S. Options Exchanges, must comply with rules and regulations of those exchanges. Exchange rules provide certain marketplace advantages to public customer orders over non-customer orders, such as priority over non-customer orders and Market-Maker quotes at the same price, and, in most cases, the absence of transaction fees for the execution of public customer orders. Exchange rules dictate that orders placed by non-customers, or "Professional Customers", be designated a "Professional Order" in order to distinguish customer orders from non-customer orders. A Professional Customer is any person or entity that is not a broker or dealer in securities and who places more than 390 orders in listed options per day on average during a calendar month. A customer's orders will need to be marked Professional for an entire quarter if they exceed the 390 average daily order threshold during any month in the preceding quarter. This notice is to inform you of our obligation to mark your orders as Professional Customer if you determine your trading meets the volume criteria.



Brokers or dealers that route order flow to us on behalf of Professional Customers have an obligation to ensure that orders are marked appropriately.

### **Characteristics and Risks of Standardized Options**

The Options Disclosure Document (“ODD”) details the characteristics and risks of listed options, and it may be obtained online here: <https://www.theocc.com/about/publications/character-risks.jsp> or by contacting your SCUSA sales representative. Please review the ODD prior to transacting in options.

### **III. Disclosures Applicable to Canadian SCUSA Customers**

In connection with account(s), transactions, products and related services by Canadian customers, SCUSA relies on the International Dealer Exemption (“the Exemption”) pursuant to subsection 8.18(2) of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations (“NI 31-103”) and Notification to Permitted Clients of the prescribed information under subsection 8.18(4)(b) of NI 31-103.

Please contact your SCUSA sales representative if you have any questions regarding the content of this letter or the manner in which we handle your orders.

Sincerely,

Scotia Capital (USA) Inc.