



## **Penson Rule 606 Disclosure :: 3Q2011**

Penson Financial Services, Inc. (Penson) has prepared this report pursuant to a U.S. Securities and Exchange Commission rule requiring all brokerage firms to make available to the public quarterly reports about their order routing practices.

The report provides information on the routing of "non-directed orders" -- any order that the customer has not specifically instructed to be routed to a particular venue for execution. For these non-directed orders, Penson has selected the execution venue on behalf of its customers.

The report is divided into four sections:

1. New York Stock Exchange listed securities
2. Nasdaq Stock Market listed securities
3. NYSE Amex Exchange and regional exchanges listed securities
4. Exchange listed options

For each section, this report identifies the venues most often selected by Penson, sets forth the percentage of various types of orders routed to the venues, and discusses the material aspects of Penson's relationship with the venues.

This report was prepared by S3, a third party market surveillance and auditing firm. Questions regarding this report should be addressed to the Penson Compliance Department at (800) 696-3585.



## 1. New York Stock Exchange Securities

| For quarter ending 9/30/2011                     | Non-Directed Orders | Market Orders | Limit Orders | Other Orders* |
|--|---------------------|---------------|--------------|---------------|
| <b>Orders Routed to:</b>                         |                     |               |              |               |
| <b>Knights Equity Markets<sup>1</sup></b>        |                     | 35.27%        |              | 87.57%        |
| <b>UBS Capital Markets<sup>2</sup></b>           |                     | 32.84%        |              | 3.88%         |
| <b>Citadel Derivatives Group LLC<sup>3</sup></b> |                     | 17.04%        |              | 5.80%         |
| <b>Nasdaq OMX<sup>4</sup></b>                    |                     | 0.00%         |              | 0.00%         |
| <b>NYSE Arca<sup>5</sup></b>                     |                     | 0.00%         |              | 0.00%         |
| <b>Lavaflow Inc<sup>6</sup></b>                  |                     | 0.00%         |              | 0.00%         |
| <b>Automated Trading Desk<sup>7</sup></b>        |                     | 6.98%         |              | 1.13%         |
| <b>Total PENSON Orders</b>                       | <b>81.2%</b>        | <b>19.7%</b>  | <b>76.3%</b> | <b>4.0%</b>   |

\* Other Orders are Stop Orders and Stop Limit Orders.

### New York Stock Exchange

The chart above shows the percentages of orders placed for securities trading on the New York Stock Exchange (NYSE).

<sup>1</sup> Penson receives payment from Knight Capital Markets L.P. for directing order flow to Knight Capital Markets L.P. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from Knight Capital Markets L.P. averaged less than \$0.002 per share for the period 3Q2011.

<sup>2</sup> Penson receives payment from UBS for directing order flow to UBS. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from UBS average less than \$0.002 per share.

<sup>3</sup> Penson receives payment from Citadel Derivatives Group LLC (Citadel) for directing order flow to Citadel. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from Citadel averaged less than \$0.002 per share for the period 3Q2011.

<sup>4</sup> Penson receives payment from Nasdaq OMX for orders that add liquidity to Nasdaq and are subsequently executed. The rate for adding liquidity to Nasdaq was up to \$0.0027. PFSI is charged for removing liquidity from Nasdaq. The rate for removing liquidity from Nasdaq was up to \$0.003 per share.

<sup>5</sup> Penson receives payment from NYSE Arca for orders that add liquidity to NYSE Arca and are subsequently executed. The rate for adding liquidity to NYSE Arca was up to \$0.0025. PFSI is charged for removing liquidity from NYSE Arca. The rate for removing liquidity from NYSE Arca was up to \$0.003 per share.

<sup>6</sup> Penson receives payment from LavaFlow ECN for orders that add liquidity to LavaFlow and are subsequently executed. The rate for adding liquidity to LavaFlow was up to \$0.0030. PFSI is charged for removing liquidity from LavaFlow. The rate for removing liquidity from LavaFlow was up to \$0.0025 per share.

<sup>7</sup> Penson receives payment from Automated Trading Desk Brokerage Services, LLC (ATD) for directing order flow to ATD. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from ATD averaged less than \$0.002 per share for the period 3Q2011.



## 2. NASDAQ Stock Exchange Securities

| For quarter ending 9/30/2011                     | Non-Directed Orders | Market Orders | Limit Orders | Other Orders* |
|--|---------------------|---------------|--------------|---------------|
| <b>Orders Routed to:</b>                         |                     |               |              |               |
| <b>Knight Capital Markets L.P.<sup>1</sup></b>   |                     | 38.19%        |              | 86.61%        |
| <b>UBS Capital Markets<sup>2</sup></b>           |                     | 34.39%        |              | 3.96%         |
| <b>Citadel Derivatives Group LLC<sup>3</sup></b> |                     | 14.55%        |              | 7.40%         |
| <b>Nasdaq OMX<sup>4</sup></b>                    |                     | 0.00%         |              | 0.00%         |
| <b>NYSE Arca<sup>5</sup></b>                     |                     | 0.00%         |              | 0.00%         |
| <b>Lavaflow Inc.<sup>6</sup></b>                 |                     | 0.00%         |              | 0.00%         |
| <b>Total PENSON Orders</b>                       | <b>100.0%</b>       | <b>19.1%</b>  | <b>75.4%</b> | <b>5.5%</b>   |

\* Other Orders are Stop Orders and Stop Limit Orders.

### Nasdaq

The chart above shows the percentages of orders placed for securities trading on the Nasdaq Stock Market (Nasdaq).

<sup>1</sup> Penson receives payment from Knight Capital Markets L.P. for directing order flow to Knight Capital Markets L.P. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from Knight Capital Markets L.P. averaged less than \$0.002 per share for the period 3Q2011.

<sup>2</sup> Penson receives payment from UBS Capital Markets for directing order flow to UBS Capital Markets. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from UBS Capital Markets averaged less than \$0.002 per share for the period 3Q2011.

<sup>3</sup> Penson receives payment from Citadel Derivatives Group LLC (Citadel) for directing order flow to Citadel. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from Citadel averaged less than \$0.002 per share for the period 3Q2011.

<sup>4</sup> Penson receives payment from Nasdaq OMX for orders that add liquidity to Nasdaq and are subsequently executed. The rate for adding liquidity to Nasdaq was up to \$0.0025. PFSI is charged for removing liquidity from Nasdaq. The rate for removing liquidity from Nasdaq was up to \$0.003 per share.

<sup>5</sup> Penson receives payment from NYSE Arca for orders that add liquidity to NYSE Arca and are subsequently executed. The rate for adding liquidity to NYSE Arca was up to \$0.0025. PFSI is charged for removing liquidity from NYSE Arca. The rate for removing liquidity from NYSE Arca was up to \$0.003 per share.

<sup>6</sup> Penson receives payment from LavaFlow ECN for orders that add liquidity to LavaFlow and are subsequently executed. The rate for adding liquidity to LavaFlow was up to \$0.0030. PFSI is charged for removing liquidity from LavaFlow. The rate for removing liquidity from LavaFlow was up to \$0.0025 per share.



### 3. NYSE Amex / Regional Stock Exchange Securities

| For quarter ending 9/30/2011                     | Non-Directed Orders | Market Orders | Limit Orders | Other Orders* |
|--|---------------------|---------------|--------------|---------------|
| <b>Orders Routed to:</b>                         |                     |               |              |               |
| <b>Knight Equity Markets<sup>1</sup></b>         |                     | 30.44%        |              | 88.04%        |
| <b>UBS Capital Markets<sup>2</sup></b>           |                     | 39.02%        |              | 4.23%         |
| <b>Citadel Derivatives Group LLC<sup>3</sup></b> |                     | 16.25%        |              | 5.89%         |
| <b>Nasdaq OMX<sup>4</sup></b>                    |                     | 0.00%         |              | 0.00%         |
| <b>NYSE Arca<sup>5</sup></b>                     |                     | 0.00%         |              | 0.00%         |
| <b>Direct Edge<sup>6</sup></b>                   |                     | 0.00%         |              | 0.00%         |
| <b>Lavaflow Inc<sup>7</sup></b>                  |                     | 0.00%         |              | 0.00%         |
| <b>Total PENSON Orders</b>                       | <b>94.7%</b>        | <b>22.4%</b>  | <b>70.5%</b> | <b>7.1%</b>   |

\* Other Orders are Stop Orders and Stop Limit Orders.

#### NYSE Amex / Other

The chart above shows the percentages of orders placed for securities trading on the NYSE Amex Exchange (NYSE) and regional exchanges.

<sup>1</sup> Penson receives payment from Knight Capital Markets L.P. for directing order flow to Knight Capital Markets L.P. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from Knight Capital Markets L.P. averaged less than \$0.002 per share for the period 3Q2011.

<sup>2</sup> Penson receives payment from UBS for directing order flow to UBS. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from UBS average less than \$0.002 per share.

<sup>3</sup> Penson receives payment from Citadel Derivatives Group LLC (Citadel) for directing order flow to Citadel. Payment varies based upon a number of factors including but not limited to: Size of the order, NBBO spread in the security at the time of order execution, time of order placement, whether an order is marketable at the time of order entry, whether or not an order is price improved, and the underlying price of the security. Payments received from Citadel averaged less than \$0.002 per share for the period 3Q2011.

<sup>4</sup> Penson receives payment from Nasdaq OMX for orders that add liquidity to Nasdaq and are subsequently executed. The rate for adding liquidity to Nasdaq was up to \$0.0027. PFSI is charged for removing liquidity from Nasdaq. The rate for removing liquidity from Nasdaq was up to \$0.003 per share.

<sup>5</sup> Penson receives payment from NYSE Arca for orders that add liquidity to NYSE Arca and are subsequently executed. The rate for adding liquidity to NYSE Arca was up to \$0.0025. PFSI is charged for removing liquidity from NYSE Arca. The rate for removing liquidity from NYSE Arca was up to \$0.003 per share.

<sup>6</sup> Penson receives payment from Direct Edge for orders that add liquidity to EDGX and are subsequently executed. The rate for adding liquidity to EDGX was up to \$0.0024. PFSI is charged for removing liquidity from EDGX. The rate for removing liquidity from EDGX was up to \$0.003 per share.

<sup>7</sup> Penson receives payment from LavaFlow ECN for orders that add liquidity to LavaFlow and are subsequently executed. The rate for adding liquidity to LavaFlow was up to \$0.0030. PFSI is charged for removing liquidity from LavaFlow. The rate for removing liquidity from LavaFlow was up to \$0.0025 per share.



#### 4. Exchange Listed Options

| For quarter ending 9/30/2011               | Non-Directed Orders | Market Orders | Limit Orders | Other Orders* |
|--|---------------------|---------------|--------------|---------------|
| <b>Orders Routed to:</b>                   |                     |               |              |               |
| Instinet Corporation <sup>1</sup>          |                     | 5.71%         |              | 0.00%         |
| Susquehanna Capital Group <sup>2</sup>     |                     | 1.40%         |              | 20.64%        |
| Knight Equity Markets <sup>3</sup>         |                     | 24.27%        |              | 0.00%         |
| NYSE Arca Options <sup>4</sup>             |                     | 0.00%         |              | 0.00%         |
| Citadel Derivatives Group LLC <sup>5</sup> |                     | 0.85%         |              | 79.36%        |
| <b>Total PENSON Orders</b>                 | <b>100.0%</b>       | <b>8.4%</b>   | <b>89.5%</b> | <b>2.1%</b>   |

\* Other Orders are Stop Orders and Stop Limit Orders.

#### Exchange Listed Options

The chart above shows the percentages of orders placed for securities trading as Exchange Listed Options.

Penson routes options orders to the CBOE, ISE, PHLX, PCX, AMEX, BOX, ARCA, CitiGroup and Citadel. It is common for these venues to make payments to brokerage firms for orders they execute at those venues; while Penson has participated in discussions with a few of these specialists, in many cases payments are made to Penson on a basis determined solely by the specialists and does not know how the payments were computed. In other cases, recipients such as Penson are advised by the specialist of the basis for payments, but those terms are set unilaterally by the specialist.

The nature of these relationships by destination are as follows:

|  |   |
|--|---|
| <sup>1</sup> Instinet Corporation          | \$0.00 to \$0.85 per contract   |
| <sup>2</sup> Susquehanna Capital Group     | \$0.00 to \$0.75 per contract   |
| <sup>3</sup> Knight Equity Markets         | \$0.00 to \$0.85 per contract   |
| <sup>4</sup> NYSE Arca Options             | PFSI receives a rebate of up to \$0.25 per contract that adds liquidity and pays up to \$0.45 for execution of contracts that take liquidity from the execution center. |
| <sup>5</sup> Citadel Derivatives Group LLC | \$0.00 to \$0.80 per contract   |