# Member Information for Proposed Business Expansion

### MARKET MAKING/PRINCIPAL TRADING

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| Member Firm: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Contact Person: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Address: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Name of Person  Completing This Form: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

1. The firm intends to make markets/principal trade in the following types of securities (check all that apply):

Nasdaq National Market

Nasdaq Small Cap

OTC Bulletin Board

Other non-Nasdaq OTC

Listed Third Market

Other (Attach description)

1. State the total number of securities in which the firm intends to make markets/principal trade: \_\_\_\_\_\_\_\_\_\_\_\_\_

*(Note: Different components [stock, units, warrants, etc.] are counted as separate securities for market-making/principal trading purposes.)*

1. The firm will conduct the proposed market making activity on the following basis:

Retail

Wholesale (i.e., inter-dealer)

Integrated (both)

1. For the proposed principal trading activities, does the firm intend to principal trade with its retail customers: Yes: No:
2. The firm intends to utilize the following number and level of Nasdaq workstations:

Level No. of Workstations

Level 1 \_\_\_\_\_

Level 2 \_\_\_\_\_

Level 3 \_\_\_\_\_

1. The firm intends to subscribe/participate (or already subscribes/participates) in the following Nasdaq Services (check all that apply):

Advanced Computerized Execution System (ACES)

Automated Confirmation Transaction Service (ACT)

CAES

CQS

ITS

ITS/CAES

Mutual Fund Pricing System

Small Order Execution System (SOES)

SelectNet

Other (Attach description)

1. Will the firm impose any daily securities trading and/or position limits on its trader(s) with respect to the firm’s proposed market making/principal trading?

Yes: No:

If yes, indicate the location of these procedures in the firm’s WSPs

pages \_\_\_\_\_\_\_ to \_\_\_\_\_\_\_.

**Information and Documentation to be Submitted**

**Workstation Access**

Provide the names of each person who will have access to Nasdaq workstations or such equipment. (The firm’s Written Supervisory Procedures must include procedures on securing such equipment and its use from unauthorized persons. These procedures are located on pages \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the firm’s WSPs.)

**Trading and Financial Personnel**

1. ***Head Trader***

Provide the CRD number, name, and a detailed description of the prior work experience, including any supervisory experience (as it relates to the proposed market making/principal trading activities) of the Principal(s) who will be designated to supervise the proposed market making/principal trading activities (the “Head Trader”). The description of experience should detail the Head Trader’s prior supervisory experience in market making/principal trading, including:

1. Examination qualifications;
2. Number of years of experience supervising market making and/or principal trading activities;
3. The average and maximum daily number of traders supervised; and
4. The average and maximum daily number of securities traded or markets made, in aggregate, by the subject individual and the traders he/she supervised.
5. The description of experience should also state where such experience was obtained, the time periods involved, positions held and responsibilities, and to whom this individual(s) reported to at any such prior firms.
6. ***Other Traders***

For all traders other than the Head Trader provide a detailed description of their prior market making/principal trading experience, as requested in question 1 above.

1. ***Financial and Operations Principal***

Provide the name, CRD number (or Social Security number) of the firm’s Financial and Operations Principal (FINOP), and a description of his or her prior work experience as it relates to the review of financial/operational issues relevant to market making or principal trading activities and the names of the broker/dealers at which he or she acquired such experience. Also identify to whom this individual(s) reported at any such prior firms.

**Order Execution Process**

1. Describe the firm’s order execution process, including the reporting of transactions pursuant to NASD rules. Note: The firm’s WSPs must include procedures pertaining to order execution activities, including best execution, and transaction reporting responsibilities.
2. Provide a detailed description of all execution service and/or payment-for-order-flow arrangements anticipated between the firm and other broker/dealers, floor traders, etc.
3. Describe how the firm intends to address the issues set forth in *Notice to Members 99-12* relative to trading and market making in securities subject to high volatility (such as Internet-based stocks).

**Written Supervisory Procedures - Special Reminders**

1. ***NASD Conduct Rules***

The firm’s WSPs pertaining to the supervision of the firm’s intended market making and/or principal trading activities should include, but not be limited to the following matters:

1. Nasdaq short interest reporting procedures pursuant to NASD Rules 3360 and 3350;
2. Short sale procedures pursuant to SEC Rule 10a-1;
3. ACT requirements of trade information to be input in regard to short sales pursuant to NASD Rule 6130;
4. Mandatory close-out for short sales pursuant to NASD Rule 11830;
5. Affirmative Determination pursuant to NASD Rule 3370; and
6. NASD Rules 4000-7000 as applicable.
7. ***Compliance With The SEC’s 21(a) Report***

Pursuant to the SEC’s “Nasdaq Stock Market Report of Investigation” issued pursuant to Section 21(a) of the Securities Exchange Act of 1934 (the “21(a) Report”), all current and proposed market-making firms must provide a written description of all policies, practices, and procedures adopted (or proposed) that address the issues referenced in the 21(a) Report. Each of the following items should be addressed:

1. a. pricing conventions;
2. size conventions;
3. coordination of quotations, trades, and trade reports;
4. exchange of proprietary information;
5. improper collaboration/coordination of market maker activities;
6. failure to honor quotations;
7. late and inaccurate trade reporting; and
8. description of any training plans for traders and other relevant associated persons with regard to all of the above-referenced items.