

Notice to Members

APRIL 2006

SUGGESTED ROUTING

Legal & Compliance
Operations
Senior Management

KEY TOPICS

New Member Applications
Rule 1013
Rule 1014
Standardized Application Form

GUIDANCE

New Member Applications

NASD Amends Rule 1013 to Adopt a Standardized Application Form (Form NMA) to be Used by All New Member Applicants; **Implementation Date: May 20, 2006**

Executive Summary

NASD is issuing this *Notice* to inform members and applicants for membership that NASD has amended Rule 1013 (New Member Application and Interview) to adopt a standardized application form, Form NMA, to be used by all new applicants applying for membership to NASD. NASD has also made several technical changes to Rule 1013 and Rule 1014 (Department Decision).

The proposed rule changes, which were filed with the Securities and Exchange Commission (SEC), became effective upon filing.¹ The implementation date of the amendment, which is also the date on which applicants must begin using Form NMA to apply for NASD membership, is May 20, 2006. Attachment A contains the text of the amendment. Attachment B contains a sample Form NMA.

Questions/Further Information

Questions regarding this *Notice* may be directed to Karin Marshall, Membership Manager, Regulation Policy, NASD Department of Member Regulation, at (202) 728-6954.

Background

Applying for NASD membership is a comprehensive process requiring the submission of extensive information, considerable attention to detail and a substantial time commitment. Rule 1013 identifies the requirements for submitting a new member application for NASD membership, including a listing of the documents required and a requirement that the applicant submit a “substantially complete” application.² Failure to submit complete and accurate information in a timely manner can result in the cancellation of an application and the loss of a portion of the application fee paid to NASD.³

Despite Rule 1013’s listing of the requirements for a new member application submission, NASD continues to receive incomplete or inadequate membership applications. These applications may require significant information requests to obtain missing documentation and require a great deal of time and resources to process them appropriately. Additionally, as noted above, if there is insufficient information contained in the original submission for the application, NASD’s Department of Member Regulation may determine that the application is not “substantially complete” and reject the application.

Discussion

To address these issues and to make the membership application process more efficient, NASD has created a standardized form, Form NMA, to assist new member applicants in the preparation of a complete application package and amended Rule 1013 to require the submission of Form NMA as part of the new membership application. Form NMA does not establish new or additional content requirements, which are already set forth in Rule 1013, but, rather, is a means to assist new member applicants in the preparation of a complete application package. Form NMA is organized according to the 14 individual standards for membership enumerated in Rule 1014 and lists the forms and supporting documentation required in an application submission.

Additionally, the Form classifies certain information as mandatory for submission with the initial application, including detailed financial and source of capital information, an organizational chart, a completed Form BD, a business plan and written supervisory procedures. If the required information is not received in the initial submission, NASD’s Department of Member Regulation may not deem the application as “substantially complete” pursuant to Rule 1013(a)(4) and may reject it. Accordingly, the identified information *must* be included in the application when it is first submitted and will be reviewed for content by NASD staff before the application can be deemed substantially complete.

By requiring the submission of the Form NMA with all new membership applications, NASD expects to streamline the application process by creating a more consistent application process and clearly outlining the information that must be submitted to process the application. Form NMA can be accessed directly at www.nasd.com/NMAform. Alternatively, persons can access the form by going to NASD's Web site (www.nasd.com), selecting the tab at the top of the page entitled "Registration & Qualifications" and following the links: Member Firms > How to Become a Member> Forms & Additional Documents. The implementation date of the rule amendment is May 20, 2006. Accordingly, all new membership applications submitted on or after that date must be on Form NMA.

Endnotes

- 1 See Exchange Act Release No. 53564 (March 29, 2006); 64 F.R. 16847 (April 4, 2006) (SR-NASD-2006-038). Under Section 19(b) of the Securities Exchange Act of 1934, the SEC has the authority to summarily abrogate this type of rule change within 60 days of filing.
- 2 See *generally* Rule 1013.
- 3 See Rule 1013(a)(4) ("If the Department determines within 30 days after the filing of an application that the application is not substantially complete, the Department may reject the application and deem it not to have been filed... [NASD] shall refund the application fee, less \$350, which shall be retained by [NASD] as a processing fee.").

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ATTACHMENT A

Text of approved rule changes.

New text is underlined; deleted text is bracketed.

1013. New Member Application and Interview

(a) Filing of Application

(1) - No Change.

(2) Contents

An Applicant shall submit an application using NASD Form NMA. The application shall include:

(A) through (Q) No Change.

(R) [a Web CRD entitlement request form]an NASD Entitlement Program Agreement and Terms of Use and an NASD Member Firm Account Administrator Entitlement Form[a Member Contact Questionnaire user access request form].

(3) Electronic Filings

Upon approval of the Applicant's [Web CRD entitlement request form] NASD Member Firm Account Administrator Entitlement Form, the Applicant shall submit its Forms U4 for each Associated Person who is required to be registered under NASD Rules, any amendments to its Forms BD or U4 and any Form U5 electronically via Web CRD. [Upon approval of the Applicant's membership, the Applicant shall submit any amendments to its Member Contact Questionnaire electronically.]

(4) through (5) No Change.

(b) Membership Interview

(1) through (7) No Change.

* * * * *

1014. Department Decision

(a). Standards for Admission

(1) through (5) No Change.

(6) The communications and operational systems that the Applicant intends to employ for the purpose of conducting business with customers and other members are adequate and provide reasonably for business continuity in each area set forth in Rule 1013(a)(2)([F]E)(xii);

(7) through (14) No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

ATTACHMENT B

NASD New Member Application Form (Form NMA)

I. Contents Of The Membership Application

NASD's New Member Application Form (Form NMA) is designed to assist Applicants in the preparation of an NASD New Member Application Package. The completed and signed Form, including all required forms and supporting documentation, is to be filed with NASD's Department of Member Regulation at the District Office in the District in which the Applicant intends to have its principal place of business (as defined in Rule 1011(l)). The Form must be accompanied by an application fee of \$5,000 for clearing and self-clearing firms or \$3,000 for all other firms. A complete listing of registration and examination fees can be found on the [NASD Web site](#).

II. Using This Form

This Form references information required by NASD Membership Rules. Some items may not be applicable to the Applicant's specific business plan. Additional documents may be requested once the Staff has an opportunity to review the application.

PLEASE NOTE: The Staff will NOT commence review of an application until it is substantially complete. Certain items that are always required to make an application substantially complete are indicated in the right column of the checklist provided on the Form with a "Y." These items **must be** included in the application when it is first submitted and will be reviewed for content by the Staff prior to deeming an application substantially complete. If an application is not deemed substantially complete, NASD shall refund the application fee, less a \$350 processing fee. If the Applicant determines to continue to seek membership, the Applicant must submit a new application and fee. See Rule 1013(a)(4).

Although only certain items are required to *commence* processing an application, all of the items indicated below, to the extent relevant to the Applicant's proposed business, are required to be submitted to NASD and will be reviewed before the application can be approved. NASD encourages Applicants to include as much of the required information as possible in the initial application package. Experience shows that applications containing complete information can be processed more quickly, with less need for the Staff to ask for supplemental information. Complete applications also help the Staff gain a prompt understanding of the Applicant's business plan, which facilitates NASD's ability to evaluate whether the Applicant meets the standards for admission to NASD. Applicants are also encouraged to consider consulting with District Office staff in advance of filing an application for membership in cases involving complex or novel business arrangements. **Underneath each line item in the space provided, please indicate that the information is enclosed and where it can be found in the application, when it will be forthcoming if it is not enclosed, or an "N/A" and an explanation of why it is not applicable to the application. Each line item in the application must be addressed when the application is first submitted. Applicants may use additional pages as necessary to provide the required information.**

III. Obtaining Online Documents

Please note that documents available online are highlighted throughout this checklist with hyperlinks. In the interest of a thorough application, it is recommended that Applicants review both [How to Become a Member](#) on the NASD Web site, as well as [The Guide to Continuing Membership](#), which contains product and service specific questions and other relevant information that the Applicant should address, as applicable, in its New Member Application.

IV. Organization

The Form is organized by reference to the 14 standards for admission set forth in Rule 1014(a). It is strongly recommended that the completed application be organized such that supporting documentation for each standard is separated and identified by tabs for ease of reference and review.

Documentation or Information Description	Required for Initial Package
Standard 1: The application and all supporting documents are complete and accurate.	
<p>1. The Applicant must submit a detailed business plan that adequately and comprehensively describes all material aspects of the business that will be, or are reasonably anticipated to be, performed at and after the initiation of business operations. The business plan should also address future business expansion plans, if any, and include the following information:</p> <p>Note: The business plan is one of the most important components of the New Member Application. It is the Applicant's responsibility to fully detail and communicate its proposed method of operation, administration, and supervision.</p>	Y
<p>A. A detailed description of each business activity to be conducted by the Applicant, including, but not limited to:</p> <ul style="list-style-type: none"> a. Number of markets to be made, if any, the type and volatility of the products, and the anticipated maximum inventory positions. b. Any plan to enter into contractual commitments, such as underwritings or other securities-related activities. c. Any plan to distribute or maintain securities products in proprietary positions, and the risks, volatility, degree of liquidity, and the speculative nature of the products. 	Y
Response:	
<p>B. A list of the types of securities to be offered and sold and the types of retail or institutional customers to be solicited.</p>	Y
Response:	

<p>C. A description of the methods and media to be employed to develop a customer base and to offer and sell products and services to customers, including the use of the Internet, telephone solicitations, seminars, or mailings.</p>	<p>Y</p>
<p>Response:</p>	
<p>D. A detailed description of how each of the respective business activities will be effected (e.g., a description of how securities will be bought and sold, and who will be responsible for execution and trade reporting).</p>	<p>Y</p>
<p>Response:</p>	
<p>E. How transactions will be settled and cleared (e.g., fully disclosed, etc.).</p>	<p>Y</p>
<p>Response:</p>	
<p>F. The capacity in which the Applicant will act (principal or agency).</p>	<p>Y</p>
<p>Response:</p>	
<p>G. If the Applicant intends to use e-commerce to effect securities transactions, submit copies of all disclosure documents to be provided to the customer, a description of how accounts will be opened and transactions supervised, and sample screens to be used. The Applicant must provide the staff with access to any Web site the Applicant will use and the URL address.</p>	<p>Y</p>
<p>Response:</p>	
<p>H. A management organizational chart. This chart should reflect the organizational hierarchy of the firm's management and, at a minimum, should identify by name, title, and CRD number (or Social Security number) the firm's Chief Executive Officer, President, Chief Compliance Officer, key supervising principals, and Financial and Operations Principal ("FinOp").</p>	<p>Y</p>
<p>Response:</p>	

<p>I. An ownership organizational chart. This chart should reflect the ownership structure of the Applicant, including the percentage of ownership held by each individual or entity. Include a list of all affiliated entities or entities with common ownership. Include a description of the business conducted, officers and directors, and the owners with their corresponding ownership interest in such entities.</p>	Y
<p>Response:</p>	
<p>J. Copies of all corporate formation documents for Applicant and all control affiliated entities. For example, in the case of a corporation, include the Corporate Resolutions identifying officers/directors/owners and the Articles of Incorporation. In the case of a partnership, the partnership agreement, and in the case of a Limited Liability Company, the operating agreement and certificate of LLC.</p>	
<p>Response:</p>	
<p>2. The completed Form NMA.</p>	Y

Documentation or Information Description	Required for Initial Package
<p>Standard 2: The Applicant and its Associated Persons have all licenses and registrations required by state and federal authorities and self-regulatory organizations.</p>	
<p>1. One originally signed and notarized paper Form BD with applicable schedules. Include evidence of request for:</p> <ul style="list-style-type: none"> a. Registration with the Securities and Exchange Commission (“SEC”). b. Registration with states where firm will conduct business as required by state law. <p>Note: Certain states may require additional information for approval. It is the Applicant’s responsibility to determine the registration requirements of each state in which the Applicant wishes to register.</p>	Y
<p>Response:</p>	
<p>2. A list with name and CRD number of each associated person of the Applicant (as defined in Rule 1011(b)). With respect to each proposed associated person include the following:</p> <ul style="list-style-type: none"> a. Title. (Specifically identify the persons who will serve as the Applicant’s Executive Representative, AML Compliance Officer, and Chief Compliance Officer.) b. CRD Number. c. A statement as to whether the individual will be registered as a principal and/or representative with the Applicant. d. The registrations and licenses currently held by each individual. e. Any registration or licenses the individual intends to obtain and the date by which such examination will be scheduled as well as the anticipated date of completion of the examination. <p>Note: Pursuant to Rule 3013, each member must identify a principal to serve as Chief Compliance Officer. Additionally, pursuant to Rule 1013(a)(3), upon arrival of the Applicant’s NASD Entitlement Program Agreement and Terms of Use and NASD Member Firm Account Administrator Entitlement Form (see Item 13 under Standard 2), the Applicant shall submit its Form(s) U4 electronically for each Associated Person who is required to be registered under NASD Rules.</p>	Y

<p>Note: Applications for NASD membership should not be submitted until all individuals required to be registered are prepared to complete all examination and qualification requirements. Failure to schedule and successfully complete examinations in a timely manner may result in a significant delay of the application review process, or a lapse or denial of the application. It is strongly suggested that any examination(s) be scheduled within the first 45 days of the application process and that all registration requirements be completed within the first 90 days of the application process.</p>	
<p>Response:</p>	
<p>3. If the Applicant is seeking a waiver of the two (2) principal requirements in Rule 1021(e), provide a detailed explanation that demonstrates the reason(s) for the waiver. Additionally, provide a contingency plan for situations where the sole General Securities Principal becomes unavailable to carry out his or her responsibilities.</p> <p>Note: Each Applicant is required to register two principals and a Financial and Operations Principal. In addition, certain business activities may require additional principal registrations (e.g., options, municipals, etc.). Refer to Rules 1020 and 1030 for appropriate registration of principals and representatives.</p>	
<p>Response:</p>	
<p>4. A description of duties and responsibilities of any non-registered officers, directors, owners, and control persons. See Rules 1020 - 1022 and 1060 and <i>Notice to Members 99-49</i>. Provide an attestation for officers, directors, owners, and control persons who will not participate in the day-to-day securities operations of the Applicant or act in any capacity that would require that these individuals become registered. <u>Sample forms</u> are provided.</p>	
<p>Response:</p>	
<p>5. One original NASD-approved fingerprint card for each associated person subject to SEC Rule 17f-2.</p> <p>OR Corresponding exemption notice(s) pursuant to SEC Rule 17f-2.</p> <p>Note: Fingerprint cards must be submitted promptly upon filing an electronic Form U4 for each person applying for registration. If a member fails to submit a fingerprint card within 30 days after NASD receives the electronic Form U4, the person's registration shall be deemed inactive. See Rule 1140(c)(2).</p>	

Response:	
6. If any of the Applicant's proposed principals are or will be dually registered, list the other broker-dealers with which the principals are or will be associated, in what capacity, and state the percentage of time that will be spent at the Applicant in carrying out their responsibilities on a weekly basis.	
Response:	
7. One completed <u>New Member Assessment Report</u> .	Y
Response:	
8. One company check, certified check, or money order payable to NASD for the appropriate application, registration, examination, and fingerprint fees.	Y
Response:	
9. An executed copy of the <u>Security Sales Activity Statement</u> .	Y
Response:	

<p>10. Registration with DTC for FINS number and Lost & Stolen Securities Registration.</p> <p>Note: This can only be completed after the application is deemed complete and the firm is assigned a CRD number.</p> <ul style="list-style-type: none">• FINS Number Depository Trust Company Attn: Aisha Pigott 55 Water Street 51st Floor New York, NY 10041 (212) 855-4173; Fax (212) 855-5445 Please include the name and address of the firm, phone number, and type of anticipated business.• Lost and Stolen Securities Securities Information Center (SIC) P.O. Box 9151 Boston, MA 02205-9151 (617) 345-4910 Attach a copy of the notification from the SIC indicating that registration has been requested and is pending. If the firm is an indirect inquirer, submit a copy of the agreement between it and the direct inquirer.	
Response:	
11. <u>OATS registration</u> (see Rule 6950 Series and <i>Notice to Members 98-73</i>)	
Response:	

<p>12. Other registrations and notifications as required by the proposed business plan.</p> <ul style="list-style-type: none"> a. Options: Registration with Market Surveillance for Exercise & Assignment Allocation Procedures. b. Municipals: MSRB Acknowledgement Letter and assigned MSRB identification number. Municipal Securities Rulemaking Board 1900 Duke Street Suite 600 Alexandria, VA 22314 (703) 797-6600 c. <i>Municipals</i>: Copy of MSRB notification about the Applicant’s capabilities for reporting municipal securities transactions (see MSRB Rule G-14). d. <i>Municipals</i>: Copy of MSRB notification about the Primary Electronic Mail Content (see MSRB Rule G-40). e. <i>Market Makers</i>: Application of Registration as a Nasdaq Market Maker. f. <i>Market Makers/Proprietary Trading</i>: Proprietary trading reporting symbol. g. <i>Corporate Bonds</i>: Copy of the corporate bond “TRACE” reporting agreement. NASD Market Operations 9509 Key West Avenue 5th Floor Rockville, MD 20850 (866) 776-0800 	
Response:	
13. Completed <u>NASD Entitlement Program Agreement and Terms of Use and NASD Member Firm Account Administrator Entitlement Form</u> .	Y
Response:	

Documentation or Information Description	Required for Initial Package
<p>Standard 3: The Applicant and its Associated Persons are capable of complying with the federal securities laws, the rules and regulations thereunder, and NASD Rules, including observing high standards of commercial honor and just and equitable principles of trade.</p>	
<p>1. Applicants are advised that Rule 1014(b) contains a provision that creates a rebuttable presumption of denial where it is determined that the Applicant or its Associated Persons are the subject of any of the following events:</p> <ul style="list-style-type: none"> a. A state or federal authority or self-regulatory organization has taken permanent or temporary adverse action with respect to a registration or licensing determination regarding the Applicant or an Associated Person; b. An Applicant or Associated Person is the subject of a pending, adjudicated, or settled regulatory action or investigation by the Commission, the Commodity Futures Trading Commission, a federal, state, or foreign regulatory agency, or a self-regulatory organization; an adjudicated, or settled investment-related private civil action for damages or an injunction; a criminal action (other than a minor traffic violation) that is pending, adjudicated, or that has resulted in a guilty or no contest plea; or an Applicant, its control persons, principals, registered representatives, other Associated Persons, any lender of 5% or more of the Applicant's net capital, and any other member with respect to which these persons were a control person or a 5% lender of its net capital is subject to unpaid arbitration awards, other adjudicated customer awards, or unpaid arbitration settlements; c. An Associated Person was terminated for cause or permitted to resign after an investigation of an alleged violation of a federal or state securities law, a rule or regulation thereunder, a self-regulatory organization rule, or industry standard of conduct; d. A state or federal authority or self-regulatory organization has imposed a remedial action, such as special training, continuing education requirements, or heightened supervision, on an Associated Person. <p>To the extent that any of these events exist, Applicant should include a description of each event and demonstrate how, notwithstanding the presumption, the Applicant will be able to meet all the standards for admission in Rule 1014(a). See Rule 1014(b) and <i>Notice to Members 04-10</i> for additional information.</p>	<p>Y</p>
<p>Response:</p>	

<p>2. Identification and description of any of the following events, unless the event has been reported to the Central Registration Depository (CRD®) system.</p> <ul style="list-style-type: none"> a. a regulatory action against or investigation of the Applicant or an Associated Person by the SEC, the Commodity Futures Trading Commission, a federal, state, or foreign regulatory agency, or a self-regulatory organization that is pending, adjudicated, or settled; b. an investment-related civil action for damages or an injunction against the Applicant or an Associated Person that is pending, adjudicated, or settled; c. an investment-related customer complaint or arbitration that is required to be reported on Form U4; d. a criminal action (other than a minor traffic violation) against the Applicant or an Associated Person that is pending, adjudicated, or that has resulted in a guilty or no contest plea; and e. a termination for cause or a permitted resignation after investigation of an alleged violation of a federal or state securities law, a rule or regulation thereunder, a self-regulatory organization rule, or an industry standard of conduct. 	<p>Y</p>
<p>Response:</p>	
<p>3. Documentation of any of the events specified in Item #2 above. If none, so state.</p>	
<p>Response:</p>	
<p>4. To the extent that any of the events specified in Item #2 exist for the Applicant, and considering also all events reported into CRD, a detailed explanation as to how the Applicant is nonetheless capable of complying with industry rules, regulations, laws, and observing high standards of commercial honor and just and equitable principles of trade.</p>	
<p>Response:</p>	
<p>5. Identification and description of any sales practice violation, pending arbitration, or pending private civil action for the Applicant or Associated Person. If none, so state.</p>	
<p>Response:</p>	

<p>6. <i>Municipals</i>: In certain circumstances, a municipal securities dealer may be prohibited, as a result of certain political contributions made by the firm or its employees, from engaging in negotiated municipal securities financial advisory or underwriting business. (See MSRB Rule G-37). If the Applicant is not subject to this prohibition, so state. If the Applicant believes it is subject to a prohibition on municipal securities business, provide a description of the prohibition and how the firm will monitor its prohibited activities.</p>	
<p>Response:</p>	

Documentation or Information Description	Required for Initial Package
<p>Standard 4: The Applicant has established all contractual or other arrangements and business relationships with banks, clearing corporations, service bureaus, or others necessary to: (A) initiate the operations described in the Applicant’s business plan, considering the nature and scope of operations and the number of personnel; and (B) comply with the federal securities laws, the rules and regulations thereunder, and NASD Rules.</p>	
<p>1. A detailed description and copy of each contractual arrangement and/or business relationship the Applicant will have as part of its proposed activities, including:</p> <ul style="list-style-type: none"> a. Evidence of establishment of general bank accounts; b. SEC Rule 15c3-3(k)(2)(i) Account Agreement on bank stationery OR c. SEC Rule 15c3-3 Account Agreement on bank stationery; d. Clearing agreements (these must comply with Rule 3230) OR e. A letter of intent from the clearing firm and a draft clearing agreement if the clearing firm is unable to provide an executed agreement; f. Service Bureau Agreement; g. ACT Service Bureau/Executing Broker Supplement; and h. Expense Sharing Agreement, if any. Any Expense Sharing Agreement must be compliant with <i>Notice to Members 03-63</i>. 	
Response:	
<p>2. Arrangements for Accounting Services, including:</p> <ul style="list-style-type: none"> a. Designation of Accountant Form; b. Audit Engagement Letter from Auditor pursuant to SEC Rule 17a-5(f)(2); c. Description of Accounting Services other than the annual independent audit to be performed by auditor; and d. Description of Accounting Services other than the annual independent audit to be performed by another accounting firm or consultant. 	
Response:	

3. Copy of Registered Investment Advisor Forms ADV (if applicable) including Registered Investment Advisor ID Number.	
Response:	
4. Fidelity Bond coverage (See Rule 3020 for required coverage), including name of insurer, amount of coverage and deductible, effective and expiration dates of coverage, and cancellation rider. Note: This can only be completed after the application is deemed complete and the firm is assigned a CRD number.	
Response:	

Documentation or Information Description	Required for Initial Package
<p>Standard 5: The Applicant has or has adequate plans to obtain facilities that are sufficient to: (A) initiate the operations described in the Applicant’s business plan, considering the nature and scope of operations and the number of personnel; and (B) comply with the federal securities laws, the rules and regulations thereunder, and NASD Rules.</p>	
<p>1. Identification of the intended location of the Applicant’s principal place of business. Also include identification of each location(s) where the Applicant will conduct business, including the total number of offices the Applicant expects to have in the first 12 months of operation, including whether each will be designated as a non-branch, branch, or Office of Supervisory Jurisdiction (“OSJ”) and who will manage each location. Include the names, titles, registration, location, and CRD numbers of the persons to be in charge of each office. Also include a written description of the anticipated business activity for each location.</p>	Y
Response:	
<p>2. A description of the business facilities (e.g., business area and floor plan), including a statement explaining how the proposed facilities are adequate for the proposed business. This description must address, among other things, the square footage, business equipment, and secure storage for books and records.</p>	
Response:	
<p>3. A copy of any final or proposed lease for all locations.</p>	
Response:	
<p>4. If the Applicant will share office space with another entity, include a detailed explanation of how the Applicant will separate its space from the other entity and ensure its customers have clarity about which firm with which they are dealing when on the premises. Also explain how the Applicant will establish and maintain the integrity and confidentiality of its broker-dealer information in light of the shared space.</p>	
Response:	

Documentation or Information Description	Required for Initial Package
<p>Standard 6: The communications and operational systems that the Applicant intends to employ for the purpose of conducting business with customers and other members are adequate and provide reasonably for business continuity in each area set forth in Rule 1013(a)(2)(E)(xii).</p>	
<p>1. A description of the communications and operational system that the Applicant will employ to conduct the proposed business and a Business Continuity Plan for the Applicant pursuant to Rule 3510, detailing the plans and procedures the firm will use to ensure business continuity. The communications and operational system must be tailored to the firm's business plan and address:</p> <ul style="list-style-type: none"> a. System capacity to handle the anticipated level of usage; b. Supervisory or customer protection measures that may apply to customer use of, or access to, firm systems; c. Contingency plans in the event of systems or other technological or communications problems or failures that may impede customer usage or firm order entry or execution; d. System redundancies; e. Disaster recovery plans; f. System security; g. Disclosures to be made to potential and existing customers who may use firm systems; and h. Supervisory or customer protection measures that may apply to customer use of, or access to, such systems. <p>Pursuant to Rule 3510(c), the elements that comprise a business continuity plan are flexible and may be tailored to the size and needs of the member. Each plan, however, must at a minimum, address:</p> <ul style="list-style-type: none"> a. Data backup and recovery (hard copy and electronic); b. All mission critical systems; c. Financial and operational assessments; d. Alternate communications between customers and the member; e. Alternate communications between the member and its employees; f. Alternate physical location of employees; g. Critical business constituent, bank, and counter-party impact; 	

<p>h. Regulatory reporting;</p> <p>i. Communications with regulators; and</p> <p>j. How the member will ensure customers' prompt access to their funds and securities in the event that the member determines that it is unable to continue its business.</p> <p>(See Rule 3510 and <i>Notice to Members 04-37</i> for additional information).</p>	
<p>Response:</p>	
<p>2. Signed <u>Systems Certification Form</u>.</p>	
<p>Response:</p>	

Documentation or Information Description	Required for Initial Package
<p>Standard 7: The Applicant is capable of maintaining a level of net capital in excess of the minimum net capital requirements set forth in SEC Rule 15c3-1 adequate to support the Applicant's intended business operations on a continuing basis, based on information filed under Rule 1013(b)(5).</p>	
<p>1. Financial information detailing the Applicant's sources of funding, current financial position, and projected revenues and expenses, including:</p> <ul style="list-style-type: none"> a. A trial balance, balance sheet, income statement, net capital computation, and general ledger, with the supporting schedules (including documentation to support all allowable assets such as bank statements and related reconciliations and computation of net capital, each of which has been prepared no more than 30 days before the filing date of the application); b. A statement of the Applicant's statutory minimum net capital requirement, pursuant to SEC Rule 15c3-1; c. Written Notification for Use of Alternative Standard of Net Capital computation pursuant to SEC Rule 15c3-1 (if applicable); d. A statement providing the paragraph of SEC Rule 15c3-1 under which the firm computes its net capital and the applicable exemption of SEC Rule 15c3-3. Provide a description of how business will be conducted to qualify Applicant for exemption. Please indicate if the Applicant is self-clearing; and e. A detailed monthly projection of income and expenses for the first 12 months of operations (revenue presented by product, service, and/or activity and expenses between fixed and variable) with a supporting rationale (including the projected number of registered persons, customers, and trading volume). <p>Note: The Applicant must represent how it will ensure financial assets required to meet all operating expenses and remain in capital compliance for a one-year period. Projected revenues will be given little, if any, weight as assets available to meet operating expenses during the start-up phase.</p>	<p>Y</p>
<p>Response:</p>	

<p>2. A description of the nature and source of the Applicant’s capital with supporting documentation. Supporting documentation includes, but is not limited to, corporate minutes reflecting the authorization of funding and bank statements evidencing the deposits of funds. Documentation of any and all subordinated loan arrangements should also be included. Further, provide evidence of the source of funds that includes a copy of the check(s) or wire advances and statements for the source account(s). Statements for each account shall include the month in which the withdrawal was made and two previous months.</p> <p>Note: The description should trace funds from all sources (e.g., owners, other persons or entities, layers of ownership or control of the Applicant or other companies) contributing to the capital of the Applicant and should correspond to supporting documentation. The information provided must provide staff with a clear picture of the movement of funds from their origin to the Applicant.</p>	<p>Y</p>
<p>Response:</p>	
<p>3. A list of persons or entities, including CRD or Tax Identification Numbers, that have contributed or plan to contribute financing to the Applicant’s business with their corresponding percentage of ownership interest in the Applicant, if any, and the terms and conditions of such financing arrangements. Include copies of any loan agreements.</p>	<p>Y</p>
<p>Response:</p>	
<p>4. Details of any business activity not provided in response to queries under Standard 1 that the Applicant may engage in that reasonably could have a material impact on net capital within the first 12 months of business operations. Include a description of the risk to net capital presented by the Applicant’s proposed business activities. Also include a detailed description of any arrangements for additional capital should a business need arise.</p>	
<p>Response:</p>	

Documentation or Information Description	Required for Initial Package
Standard 8: The Applicant has financial controls to ensure compliance with the federal securities laws, the rules and regulations thereunder, and NASD Rules.	
The Applicant must submit a description of the financial controls used to ensure financial and operational responsibility, to include the following:	
1. Identity of the person who has signatory authority on the firm's financial accounts.	
Response:	
2. Identify by name and CRD number the Applicant's FinOp and provide a detailed description of the individual's prior work experience. This description should also address how the individual satisfies Rule 1014(a)(10)(D) which requires one-year of direct or two-years related experience in the subject area to be supervised. Additionally, identify any other person responsible for overall control of financial and operational activities.	Y
Response:	
3. Provide a statement as to whether the Applicant's FinOp would be dually registered with other broker-dealers. If yes, please provide the following:	
<ul style="list-style-type: none"> a. For each firm at which the FinOp is registered, please provide the firm name and CRD number, date of association, business line(s) of the firm, responsibilities at the firm, and the hours devoted to the firm per month; b. A description of any system, policies, and procedures that the firm will implement to enable the FinOp to access promptly access the firm's books and records and to keep abreast of any financial and related problems occurring at the firm; and c. A description of the procedures the Applicant will follow in the event the Applicant encounters a situation that may cause a net capital deficiency. The Applicant's procedures should outline when and how the Applicant would notify the FinOp, if the need should arise, and what action will be taken in order to comply with SEC Rules 17a-5 and 17a-11. 	
Response:	

4. Description of how the firm will handle customer funds and/or securities.	Y
Response:	
5. Procedures for reconciliation of bank accounts and clearing statements, to include: a. Who is responsible; b. When the reconciliations will be done; c. Records maintained; and d. Evidence of review.	
Response:	
6. Description of system used to prepare monthly financial statements: a. Manual or electronic books and records package program, outside software, or proprietary accounting system. b. Maintenance of financial records (e.g., GAAP accounting, cash vs. accrual).	Y
Response:	
7. Description of how the firm will satisfy FOCUS filing requirements. Include any agreement with consultants, Service Bureaus, or others for FinOp support.	Y
Response:	

Documentation or Information Description	Required for Initial Package
<p>Standard 9: The Applicant has compliance, supervisory, operational, and internal control practices and standards that are consistent with practices and standards regularly employed in the investment banking or securities business, taking into account the nature and scope of the Applicant’s proposed business.</p> <p>Standard 10: The Applicant has a supervisory system, including written supervisory procedures, internal operating procedures (including operational and internal controls), and compliance procedures designed to prevent and detect, to the extent practicable, violations of the federal securities laws, the rules and regulations thereunder, and NASD Rules.</p>	
<p>1. A copy of the Applicant’s Written Supervisory Procedures (“WSPs”), internal operating procedures, compliance procedures, internal inspections plan, written approval process, and qualifications investigations required by Rule 3010.</p> <p>Note: The WSPs should include a description of the controls and procedures used by the firm to deter and detect misconduct and improper activity. At a minimum, the firm’s WSPs should identify the designated responsible supervisor, describe the process the supervisor will follow to conduct each review, when (<i>i.e.</i>, how frequently) such actions will be taken and how the supervisor will evidence that the required supervisory steps were taken. <u>A repetition of the rule does not provide adequate guidance to a supervisor.</u> The firm’s procedures will be evaluated in relation to its business plan, and procedures for products or services not included in the firm’s business plan should NOT be in its WSPs. See Rule 3010 and <i>Notice to Members 99-45</i> for further guidance on the preparation of WSPs.</p>	Y
Response:	
<p>2. A completed copy of the <u>WSP Checklist</u>.</p>	Y
Response:	

<p>3. A description of the Applicant's supervisory system.</p> <p>Note: The Supervisory System and the WSPs are separate requirements, each one of which an Applicant must address. Each should be tailored to the Applicant's specific business plan. The supervisory system will be composed of many different elements, both objective, such as regular reviews of specific areas of activity, and subjective, including placing competent, qualified, and experienced individuals in supervisory roles. The WSPs document the supervisory system that the Applicant has established. For example, a supervisory system may include elements such as automated exception reports and surveillance programs that monitor for unusual trading activity in customer accounts. The WSPs would instruct the supervisor on which reports produced by the surveillance system the supervisor is to review, including a description of how often these reports should be reviewed, the steps to be taken if suspicious activity is discovered, and how to document the supervisor's oversight activities. See Rule 3010 and <i>Notices to Members 98-96</i> and <i>99-45</i> for additional guidance.</p> <p>Note: Applicants are reminded that Rule 3010(b)(2) (the "Taping Rule") requires members to establish special supervisory procedures, including the tape recording of conversations, when they have hired more than a specified percentage of registered persons from certain firms that have been expelled or that have had their broker-dealer registrations revoked for violations of sales practice rules ("Disciplined Firms"). See Rule 3010(b)(2) and <i>Notice to Members 02-61</i> for further details. A list of Disciplined Firms is available on the NASD Web site.</p>	<p>Y</p>
<p>Response:</p>	
<p>4. A copy of the Applicant's Written Supervisory Control Procedures.</p> <p>Note: A member must identify in its written supervisory control procedures one or more principals who will establish, maintain, and enforce a system of supervisory control policies and procedures that test and verify that the member's supervisory procedures are sufficient, and create additional supervisory procedures where the need is identified by such testing and verification. Additionally, a member's written supervisory control procedures must include procedures that are reasonably designed to review and monitor certain activities, including the customer account activity of producing managers. A member may also be required to include procedures that are reasonably designed to provide heightened supervision over the activities of each producing manager. See Rule 3012 and <i>Notices to Members 04-71, 05-08, and 05-29</i> for additional guidance.</p> <p>Response:</p>	<p>Y</p>

<p>5. Supervisors</p> <ul style="list-style-type: none"> a. A description of the number, experience (see Note below), location, and qualifications of primary supervisors and principals; b. The number, experience, and qualifications of persons to be supervised by such personnel; c. The other responsibilities of the supervisors and principals associated with the Applicant, their full-time or part-time status with the Applicant (including the number of hours to be devoted to the Applicant in case of part-time status); d. Any business activities that the supervisors or principals may engage in outside of their association with the Applicant, and the hours per week devoted to such activities; and e. An explanation of how a part-time or off-site supervisor or principal will be able to discharge his or her designated functions on a part-time basis or while located away from the Applicant. <p>Note: Rule 1014(a)(10)(D) requires that “each Associated Person identified in the business plan to discharge a supervisory function has at least one year of direct experience or two years of related experience in the subject area to be supervised.” Statements regarding the experience of each supervising principal must include, but not be limited to: name of firm, position held, time period employed in each position, average number of registered persons supervised, the products and/or services for which supervision was provided, and other relevant information. See Rule 1021 and <i>Notice to Members 99-49</i> for further guidance on persons required to register as principals.</p>	<p>Y</p>
<p>Response:</p>	
<p>6. A list of all outside business activities and/or private securities transactions of any associated person. See Rule 3030 and Rule 3040.</p>	
<p>Response:</p>	
<p>7. Statement detailing all prior and current direct or indirect broker-dealer ownership, including partial ownership, of any proposed owners and principals of the Applicant.</p>	
<p>Response:</p>	

8. A written acknowledgement that heightened supervision procedures and special educational programs may be required pursuant to <i>Notice to Members 97-19</i> for an Associated Person whose records reflect disciplinary actions or sales practice events.	
Response:	

Documentation or Information Description	Required for Initial Package
Standard 11: The Applicant has a recordkeeping system that enables Applicant to comply with federal, state, and self-regulatory organization recordkeeping requirements and a staff that is sufficient in qualifications and number to prepare and preserve required records.	
<p>1. A description of proposed recordkeeping system based on the size of the firm’s proposed business, the specific products involved, and the volume of business anticipated. The description should include:</p> <ul style="list-style-type: none"> a. Location of books and records (indicate if original record will be maintained in the main office, branch office, etc.); b. Format to be used for record storage, i.e. hard copy, microfilm/microfiche, optical storage technology or other electronic storage. If books and records will be stored electronically, proof of notice pursuant to SEC Rule 17a-4(f)(2)(ii). See <i>Notice to Members 97-43</i> and SEC Rule 17a-4(f)(2)(ii); c. Software used to prepare financial records; d. A statement as to whether the firm’s recordkeeping will be conducted using one of the following entities: <ul style="list-style-type: none"> • Service bureau • Clearing/correspondent agreements (See Rule 3230(a)(3)) • Piggyback arrangements 	
Response:	
2. Sample copies of all proposed books and records, including, but not limited to: customer account forms, blotters, ledgers, order tickets, confirmations or subscription agreements, and customer statements. <u>Suggested formats</u> have been provided.	

Documentation or Information Description	Required for Initial Package
<p>Standard 12: The Applicant has completed a training needs assessment and has a written training plan that complies with the continuing education requirements imposed by the federal securities laws, the rules and regulations thereunder, and NASD Rules.</p>	
<p>1. A copy of the Applicant's written Continuing Education Training Needs Assessment and Written Training Plan to comply with the Firm Element continuing education requirement of Rule 1120(b).</p>	
<p>Response:</p>	
<p>2. A completed <u>Continuing Education Plan</u> checklist.</p> <p>Note: See <u>The Continuing Education Program</u> on the NASD Web site for additional guidance.</p>	
<p>Response:</p>	

Documentation or Information Description	Required for Initial Package
<p>Standard 13: NASD does not possess any information indicating that the Applicant may circumvent, evade, or otherwise avoid compliance with the federal securities laws, the rules and regulations thereunder, or NASD Rules.</p>	
<p>Please provide a statement that describes how the Applicant meets this standard.</p>	
<p>Response:</p>	

Documentation or Information Description	Required for Initial Package
Standard 14: The application and all supporting documents otherwise are consistent with the federal securities laws, the rules and regulations thereunder, and NASD Rules.	
Please provide a statement describing how the Applicant meets this standard.	
Response:	

Signature _____

Date _____

Print Name and Title _____